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NATIONAL INTELLIGENCE DIGEST

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INTRODUCTION

CLASSIFICATION OF THIS DIGEST

This Digest as a whole is classified TOP SECRET and each page is so marked at the top. Individual sections in many cases have lower classifications, which are shown on the first page of the section. The lower classification may be employed if the material is separated from the Digest.

PURPOSE AND SCOPE OF THE NATIONAL INTELLIGENCE DIGEST

This Digest has been prepared by the Central Intelligence Agency pursuant to the direction of the President through the Executive Secretary, National Security Council. Its immediate purpose is to provide abstracts of pertinent national and current intelligence (keyed to existing papers and others now in preparation) to accompany the compilation of current national security policies prepared by the National Security Council. Accordingly, the basic chapter divisions are keyed to the order of NSC policies in that compilation, and particularly to the order in Volume I thereof, containing the NSC policies specifically directed at particular foreign areas. Thus, if desired, the material in this Digest could be reassembled in whole or in part to accompany particular NSC Statements of Policy.

In addition, this Digest is intended to serve as a summary of highlights of national and current intelligence on all major areas and countries of the world, including both intelligence information and estimates of probable developments and of probable Communist courses of action. Emphasis has been placed upon nations hostile to the U.S. and upon situations now operating or likely to operate to the detriment of U.S. security interests. There is a relative lack of emphasis upon nations with which the U.S. maintains full and substantially frank relations and upon nations and areas as to which substantially full and accurate information is available from non-classified sources. So that each section may be self-contained so far as possible, there is some duplication of material among the various sections. This applies particularly to material on Communist courses of action.

Except to the extent that published National Intelligence Estimates or Special Estimates have been quoted or abstracted, CIA assumes full and sole responsibility for the contents of this Digest.

This Digest takes account of all intelligence received by CIA through 31 October 1952.

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I. ESTIMATE OF THE WORLD SITUATION THROUGH 1954 *

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CONCLUSIONS

1. For the time being the worldwide Communist expansion has apparently been checked. There are indications that the USSR has recognized this situation and has been shifting to less openly aggressive tactics. Since Korea the Soviet bloc has undertaken no new military adventures and it has not increased its aid to Communist insurrectionary movements during the last year. These changes are due in great part to the fact that the principal Western countries have grown politically, economically, and militarily stronger.

2. While the formerly widespread fear of imminent global war has notably lessened, the Soviet leaders have not moderated their hostility toward the free world. No general settlement between the Bloc and the free world is in prospect, nor any substantial Soviet concessions. No new indications of weakness have appeared in the Soviet Bloc; on the contrary it grows stronger. The Kremlin continues to expect an ultimate victory over the capitalist world.

3. We believe that the outlook is for a continuation of Soviet efforts to undermine and destroy the non-Communist world by cold war tactics. The Communists will resort to armed aggression and to armed revolt by indigenous Communist parties when they believe these courses of action are the best means to achieve Communist objectives. If the growth of free world strength and unity continues, however, the Communists will probably place greater emphasis upon "united front" tactics and upon propaganda and diplomatic moves designed to split the Western allies and to promote dissension within non-Soviet countries.

4. Thus, great danger to the free world during the period of this estimate will lie in political and economic difficulties and divisions within the free world itself which would check the development of free world unity and strength and lend themselves to Communist exploitation.

5. We believe it unlikely that the Kremlin will deliberately initiate general war during the period of this estimate. However, there will be continuing grave danger that general war may arise from a series of actions and counteractions in a situation which neither side desired to develop into general war.

* This chapter has been prepared especially for this Digest, in order to parallel the NSC 68/114/135 series of policy papers and in order to provide a longer range global projection than is currently available in any estimate approved by the Intelligence Advisory Committee. Parts II-VII of this Digest contain shorter-range and more detailed estimates of probable developments and of Communist courses of action in areas covered by this Estimate and in individual situations not of sufficient importance to be included herein. No intelligence agency other than CIA has participated in the preparation of this Estimate.

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ESTIMATE

I. The Strengths and Weaknesses of the Soviet Bloc

A. *Political.*

6. The Soviet regime is firmly entrenched in power, and there is no apparent prospect of its control being threatened or shaken. Internal stresses and strains appear less serious now than ever before. Such rivalries and policy disagreements as may exist are unlikely to affect the unity and resolution of the regime.

7. Soviet control over the European Satellites, now virtually complete, will probably be maintained through the skillful and experienced use of military and police power and through political and economic controls. The popular discontent now present will persist and perhaps increase, but will probably not develop into more than a minor impediment to the Soviet program.

8. The Chinese Communist regime has firm control over mainland China, and there is little likelihood of this control being threatened by domestic forces. Unlike the European Satellites, Communist China is not directly and completely controlled by the Kremlin. The Chinese Communists have retained some capacity for independent action and for influencing the shaping of Communist policy in the Far East. Both the Chinese and Soviet leaders apparently view their present relationship as advantageous, and appear to recognize that neither side can substantially change the nature of their relations — by the USSR attempting to establish complete domination over China, or by Communist China asserting complete independence of the USSR — without jeopardizing the attainment of its own objectives.

9. Outside the Bloc, the Communists' political strength derives mainly from the international Communist movement, the appeal of Communist doctrine, and the power and size of the Bloc itself. Bloc size and strength generate fear and defeatism, especially among those unable to defend themselves. Communist doctrine is used both as an inspiration to the faithful and an appeal to the frustrated. Through the international Communist movement and through front organizations under its control, the Soviet leaders are able to exploit weaknesses and divisions throughout the non-Soviet world in the furtherance of Communist objectives.

B. *Military.*

10. Soviet Bloc military strength, already formidable, will continue to increase. The modernization program in the Soviet military services will continue. Special emphasis will continue to be placed on weapons of mass destruction and upon defense against such weapons. By mid-1955, the USSR will probably have about 300 atomic bombs (30 – 100 Kiloton yield);* it may have a thermonuclear weapon; it will have

* The actual figure may be from one half to twice as great as the figure given. This estimate is currently under review.

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developed improved methods for delivering these weapons against the U.S. and its allies. Soviet air defenses, already substantial, will probably further improve.

11. In the European Satellites and in Communist China, programs for the improvement of military strength are also going forward. In the Satellites, the emphasis is on expansion and equipment of conventional forces and will result in a substantial addition to Soviet military strength in Europe, offsetting, at least in part, the growth of Western strength. In Communist China, emphasis is on re-equipping existing forces, and their combat effectiveness is likely to increase.

C. Economic.

12. We estimate that by 1951 the gross national product of the USSR was 20 to 30 percent above the prewar level, and that it is now increasing at an annual rate of 6 to 7 percent. Soviet production constitutes about 60 percent of the total production of the Bloc, including Communist China. In 1951 the combined gross national product of all Bloc countries was less than one-third that of NATO countries, and the Soviet gross national product was about one-fourth that of the U.S.

13. Since the end of World War II, the Bloc as a whole has devoted a much larger proportion of its gross national product to military purposes than the West. We believe that the USSR now devotes about one-fifth of its national product to military expenditures. Traditionally low living standards and the controls prevailing within the Bloc enable the Bloc states consistently to assign to military purposes a much larger proportion of total output, particularly of scarce materials and goods, than is feasible in Western countries. Furthermore, the Bloc is able to assign a higher proportion of its military outlay to actual munitions production than is done in the West.

14. The Soviet economy is organized with a view to possible hostilities in the near future as well as in the more remote future. These two objectives compete to some extent in the allocation of resources. The Kremlin places a high priority upon stockpiling reserves, not only of military end-items but of food, capital equipment, and materials needed for maintaining the economy under wartime conditions or other emergencies.

15. The Bloc could increase its exports to the non-Communist world within the period of this estimate. We estimate that even a slight increase of trade with the non-Communist world would constitute an important political warfare weapon and might obtain for the Bloc some critical equipment and materials now difficult or impossible for it to obtain.

16. The USSR is engaged in a large-scale research and development program. This includes both pure and applied research, with an emphasis upon applied research in fields of military application, especially atomic energy, electronics, jet aircraft, guided missiles, and submarines. In all of these fields, Soviet scientists and technicians have demonstrated a high level of proficiency.

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II. The Strengths and Weaknesses of the Free World

A. General.

17. The military and economic power of the United States, and its political and moral influence, still constitute the principal center of strength and leadership for the free world. The manner in which the U.S. utilizes its power will greatly influence the extent of progress which can be made in developing resolution, a common purpose, and strength within the free world. There is in the rest of the free world a substantial reservoir of political and economic strength and a growing realization of the threat which Soviet military power and political ideology pose for the national interests and aspirations of all peoples.

18. However, the existence of varying interests and aspirations among the peoples of the free world, though in many respects an element of strength, also makes the free world subject to divisive influences. In particular, conflicts have been created in important world areas by the rise of nationalism, much of it anti-Western. Within some areas, a low standard of living, an inflexible social structure, and ineffective leadership have hindered the growth of internal strength and have exposed those areas to Communist and extremist pressures.

19. In many parts of the free world there is also resentment, fear, and distrust of the United States itself. In some quarters there is fear that the U.S. will precipitate a general war and leave various countries unprotected after doing so. There is resentment over U.S. trade policies. There is a feeling among many of the dependent and semi-dependent peoples that the U.S. is supporting the colonial powers. Despite their appreciation of the importance of the U.S. to their survival and a desire for continued U.S. economic aid, many countries are unhappy over the need to ask for U.S. help, the made-in-America label on the aid when it is forthcoming, and the open or implied U.S. requirement for support to U.S. policy in return.

B. Western Europe.

20. During the period of this estimate Western European political and economic strength will probably increase. The movement toward continental integration and toward strengthening the NATO structure will probably make further progress. Ratification of the European Defense Community agreements and creation of some form of limited European political authority are likely. There will almost certainly be some increase in NATO rearmament, including a start toward a German defense contribution, though not as rapid as currently planned. Overall Communist strength in Western Europe will probably continue to decline, but the French and Italian Communist parties will retain substantial propaganda and subversive capabilities and significant political strength.

21. However, progress toward the U.S. objective of an economically viable and militarily defensible Western Europe will still be beset by numerous political and economic problems and Europe will remain in need of U.S. leadership and material support. The difficulties in-

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volved in achieving effective action by a coalition will almost certainly weigh heavily on the military program. Moreover, even with U.S. aid, the European NATO members probably will not meet current NATO goals. The allocation of a sufficiently large share of resources to rearmament will continue to be prevented by the political weakness of continental governments and their reluctance to adopt more effective tax systems and anti-inflationary controls. Inflation and other economic difficulties, together with a growing feeling that the Soviet threat has diminished, will increase the political pressures on Western European governments for curtailment of the rearmament program.

22. Present indications are that West Germany will become a full member of the European Defense Community sometime in 1953. Despite Soviet exploitation of neutralist and unity sentiment in West Germany, most West Germans now appear to recognize that unity on anything but Soviet terms is currently almost impossible, and that Germany should join the Atlantic Community. However, Soviet maneuvers, West German bargaining tactics, and French fears of German dominance in Europe will probably delay West German rearmament.

23. French economic and political instability appears likely to continue for some years to come, and, as a result, France will almost certainly be unable to meet its current NATO commitments while simultaneously maintaining a major effort in Indochina. However, France almost certainly will remain firmly aligned with the Atlantic community.

24. In Italy, the present coalition, led by the Christian Democrats, will probably win the 1953 elections by a narrow margin, but it appears unlikely that Italy will develop during this period sufficient economic or political strength to be anything more than a weak ally.

25. The UK will remain the most important European member of the Atlantic community. Nevertheless, the UK will continue to be under severe economic pressure, and the government may be compelled further to reduce its rearmament goals.

26. The Berlin situation will continue to be a potentially explosive one. Because the Kremlin continues to aim at the expulsion of the Western Powers, the Soviet and East German governments almost certainly will continue to apply pressures upon the Western sectors of the city.

C. North Africa, the Middle East, and South Asia.

27. The principal reaction of the Middle East to the impact of Western civilization and the international political situation is a developing nationalism which is both critical and imitative of the West. Demands for political and social reform are increasing. The nature and rate of these developments have varied from country to country. In some, the colonial powers or the traditional ruling classes (large landowners, tribal sheiks, and professional politicians) have retained control

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of the governments and made only minor concessions to nationalist and reformist demands. In others, Westernized or semi-Westernized urban elements have seized the political initiative. Simultaneously, a revival of Islamic traditionalism is fostering resistance to everything Western.

28. Although in most of these countries communism is not likely to become a threat, at least during the period of this estimate, a gradual and evolutionary political change in response to the new situation seems unlikely. Political change will probably be uneven and spasmodic and is likely to be accomplished by *coups d'etat*, assassinations, and other revolutionary and semi-revolutionary processes, accompanied by increasing authoritarianism.

29. There are, however, some countries in this area — Greece, Turkey, Israel, Pakistan, and India — where there are more stable regimes less susceptible to violent change. Greece, despite recurrent Cabinet crises, has virtually eliminated the internal Communist threat. Turkey has demonstrated a capacity for peaceful political change and is moving toward political democracy on Western lines. Israel, while confronted with economic difficulties and the problem of integrating peoples of varying cultural backgrounds, will continue to be relatively stable. India and Pakistan — though troubled by disputes between themselves, disturbed by social discontent and economic evolution, and vulnerable to Communist infiltration and subversion — nevertheless have accomplished major political revolutions and are engaged in consolidating and stabilizing their new societies.

30. In Egypt a revolutionary *coup d'etat* under the auspices of young army officers has displaced the traditional ruling class. The new group appears honest, energetic, and genuinely intent upon building a new and better society. They have also given indications that they are prepared to cooperate with the West. It is still unclear whether the present moderate leadership can retain control over the military junta, whether it can cope with counterattacks by the traditionally-dominant elements, and whether it can make sufficient progress in solving Egypt's social and economic problems to prevent disillusionment.

31. The principal center of instability is Iran. The traditional ruling classes have lost the initiative to the National Front, which is an uneasy coalition of secular urban groups and religious fanatics temporarily united by a desire to rid the country of foreign influence. The Communists have gained strength, but are not yet capable of seizing power. The oil dispute has intensified nationalist and anti-Western feelings and aggravated economic weaknesses. Regardless of the outcome of this controversy, instability will probably continue, with a Communist seizure of power remaining a possibility.

32. In French North Africa, growing nationalism conflicts with French determination to retain control. French concessions to North African nationalism probably will forestall serious trouble for the next several years, but the nationalists will remain unsatisfied. The problem of North Africa will remain a source of friction among the non-Communist states which the Communists will exploit.

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33. Western military strength in the Mediterranean area will be increased by growing Turkish military capabilities and by the development of Western bases in Libya, French North Africa, and Cyprus. Nevertheless, the free world military position in the Middle East as a whole is likely to remain weak. Because of suspicions of Western motives and rivalries within the area, it will be difficult to establish a Middle East defense organization. Even if this organization is established, the countries of the area will be unable to contribute significant forces to its support, and will continue to resist the stationing of Western forces in their territories.

D. The Far East.

34. The rapid postwar expansion of Communist influence in the Far East appears to have been checked at least temporarily. Some non-Communist governments have increased in strength and stability. However, the area remains vulnerable to further Communist exploitation because of the widespread sentiment against "Western imperialism," the desire for "national independence" and improved economic status, and the ineffective leadership of most non-Communist Far Eastern governments. Communist capabilities for exploiting the situation in the Far East derive largely from the prestige and military power of Communist China and the USSR, as well as the disciplined energy and, in some cases, the armed strength of local Communist parties.

35. The chief overt threat to established non-Communist governments in the Far East has been from armed insurrections, most of them Communist-led "armed liberation" movements. It now appears that the "armed liberation" movements have been reduced in effectiveness or stalemated. In Burma the government has recently gained new stability and is moving vigorously against the insurgents. In the Philippines and Malaya, the Communist guerrilla movements have been contained, but the Indonesian government continues to be threatened by political factionalism and various insurrectionary movements. In none of these areas has armed resistance been eliminated, and it will continue to place a strain on government energy and resources.

36. In Indochina the situation is one of political and military stalemate. No decisive shift in the balance is likely during the period of this estimate. The French military effort in that country constitutes a heavy drain on the resources of metropolitan France. We believe that the French will continue their commitment in Indochina at approximately the present level, but will attempt to transfer to the U.S. the burden of any increasing costs or additional effort.

37. In Korea, the Communists have the capability of launching a large-scale offensive virtually without warning. We believe that the Communists will protract the armistice negotiations so long as they consider that they can continue to gain political and military advantages from the situation in Korea and so long as they estimate that a

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continuation of the Korean war does not involve grave risk of global war.* Even if an armistice is concluded, Korea will almost certainly remain an area of grave danger, and the object of intensive Communist political warfare.

38. The emergence of Japan as a Far Eastern power aligned with the West has contributed greatly to strengthening the non-Communist position in that area. During the period of this estimate, Japan will almost certainly maintain its present alignment with the West and will probably make gradual progress with its rearmament. In the long run, however, Japan's continued association with the Western powers will depend largely upon whether Japan's serious economic problems can be solved in cooperation with the West. If they are not so solved, the Japanese may be compelled to seek closer political and economic relations with the Communist Bloc in order to obtain the trade Japan requires.

E. *Latin America.*

39. The traditional social order in Latin America is disintegrating. This process has produced political instability more profound than that which in the past characterized the personal politics of Latin America. The political trend is toward extremely nationalistic regimes based on support by the depressed masses, of which the Peron regime in Argentina is the prototype. The numerical strength of the Communists has declined, but the Communists, operating through various fronts, can readily exploit the social unrest and ultra-nationalism already existing in the non-Communist population. Both Communists and extreme nationalists seek, by propaganda and intrigue, to curtail Latin American cooperation with the United States.

40. For the period of this estimate, the present degree and scope of Latin American cooperation with the United States is likely to remain basically unchanged. In particular, Latin American strategic raw materials will continue to be available, but the governments concerned will seek to drive hard bargains in terms of price and economic concessions, including allotments of goods in short supply. The Communists are unlikely to gain direct control of any Latin American country. There is, however, a trend toward the development of a bloc of ultra-nationalistic, isolationist South American states. Eventually, this development may adversely affect, not only U.S. interests in Latin America, but also the strength and unity of the free world.

* This sentence is quoted from Conclusion 5 of NIE-47, "Communist Capabilities and Intentions in Asia Through Mid-1953," approved by the Intelligence Advisory Committee on 23 October. The Special Assistant, Intelligence, Department of State, inserted a footnote in NIE-47 stating that he believes this sentence, "which carries an implication that the Communists might accept UN cease-fire terms if the UN were to threaten an expansion of the Korean war, is not supported by available intelligence. He believes that available intelligence does not enable us to estimate whether the unwillingness of the Communists to conclude an armistice on terms currently offered by the UN will continue throughout the period of this estimate [i.e., through mid-1953]."

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III. Probable Soviet Estimate of the Situation and Probable Communist Courses of Action.

41. We believe that all Kremlin policies and courses of action are directed toward the attainment of the Kremlin's long-range objective of a Communist world dominated by Moscow.

42. Soviet Bloc strength has improved greatly since the end of World War II. Despite this increase in strength, the Kremlin almost certainly estimates that general war would be a gamble, involving at a minimum widespread destruction in the Bloc and the risk that the Kremlin's system of control would be destroyed.

43. The Kremlin almost certainly estimates that the states of Western Europe are now more stable than at any time since World War II; that the position of most non-Communist states in Asia is somewhat stronger than in 1950; that progress has been made toward the unification and rearmament of Western Europe and toward improving the West's defenses in the Pacific; and that the U.S. has made great strides toward developing its economic and military power and toward providing leadership for the West. Moreover, the Kremlin probably estimates that the West is making rapid progress in the development and production of new weapons.

44. However, the Kremlin almost certainly estimates that opportunities remain for continued progress toward its long-range objective without resort to general war. It probably estimates that:

- a. The growth of Bloc economic and military power will increase Bloc prestige and influence throughout the non-Communist world.
- b. The non-Communist great powers, aside from the U.S., are much weaker than they were before World War II.
- c. The economies of the non-Communist states are highly vulnerable to depression and inflationary crises, which would have serious social and political repercussions.
- d. Future developments, such as the revival of West German military power, the intrusion of German and Japanese products into export markets now dominated by other states, and conflicting tariff and trade policies, will undermine, if not destroy, Western political unity and the foundations of Western prosperity.
- e. Opportunity exists for weakening the position of the Western powers and strengthening the position of Communism by exploiting the discontent and nationalist aspirations in Asia, Africa, and Latin America.

45. The Kremlin almost certainly estimates that the divergent interests of the Western Powers will sooner or later weaken or destroy their present unity. It probably also believes that no international organization which does not have the centralized leadership and control which the USSR provides the Bloc can survive the strains and pressures of modern political warfare.

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46. We believe that the outlook is for a continuation of Soviet efforts to undermine and destroy the non-Communist world by cold war tactics. The Communists will resort to armed aggression and to armed revolt by indigenous Communist parties when they believe these courses of action are the best means to achieve Communist objectives. If the growth of free world strength and unity continues, however, the Communists will probably place greater emphasis upon "united front" tactics and upon propaganda and diplomatic moves designed to split the Western allies and to promote dissension within non-Soviet countries.

47. Thus, great danger to the free world during the period of this estimate will lie in political and economic difficulties and divisions within the free world itself which would check the development of free world unity and strength and lend themselves to Communist exploitation.

48. We believe it unlikely that the Kremlin will deliberately initiate general war during the period of this estimate. However, there will be continuing grave danger that general war may arise from a series of actions and counteractions in a situation which neither side desired to develop into general war.

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II. SOVIET BLOC *

A. OVER-ALL SITUATION IN THE BLOC THROUGH MID-1953 **

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Internal Relationships and Stability

The Soviet regime is securely entrenched in power, and there is no apparent prospect of its control being threatened or shaken. In the immediate future, Soviet control over the Satellites will almost certainly remain virtually complete and insure the subservience and reliability of the governments, and continued economic and military contributions to the USSR from the area. The Chinese Communist regime has firm control over mainland China, and there is little likelihood of its control being threatened or shaken by domestic forces within the immediate future. The stability of the Bloc regimes is such that fear of internal repercussions alone will not deter the Kremlin from military policies which it feels will further its global interests.

The governments of the Bloc will continue to present a solid front to the non-Communist world. The Kremlin determines the fundamentals of Bloc policy, and it will continue to make decisions concerning courses of action in particular situations in the light of its global policy. Satellites have no direct influence upon Kremlin decisions, and the Communist Parties in non-Communist countries none whatever.

The factors tending to divide the USSR and Communist China will be far outweighed by close ideological ties and mutual pursuit of common objectives. Communist China accepts Kremlin leadership in the determination of international Communist policy, although Communist China is not completely controlled by the Kremlin. The Chinese Communists retain some capacity to pursue their own interests and to influence the shaping of Communist policy in Asia. We believe that Moscow will try to extend and intensify its control over Communist

* This chapter deals with the USSR, the European Satellites, and Communist China. North Korea is considered in Section III-C, and the Viet Minh forces in Section III-F. It should be noted that some of the material in Section II-A is duplicated wholly or in part in later sections, so that each section is self-contained to a reasonable degree.

With respect to Soviet Bloc courses of action, Chapter I of this Digest contains an over-all estimate for the period through 1954, while more detailed estimates for Asia and Western Europe are contained in sections III-A and VI-A respectively. A short-term National Intelligence Estimate covering Communist intentions in all parts of the world is now in preparation, entitled NIE-64 (II), "Probable Soviet Bloc Courses of Action through Mid-1953." This estimate is scheduled for publication in November 1952.

** This section has been largely abstracted from the just-completed NIE-64 (I), "Soviet Bloc Capabilities through Mid-1953" (approximately 8 pp., with three accompanying appendixes including statistical material and detailed figures, to be published approximately 5 November 1952). With reference to Sino-Soviet relationships and Far Eastern matters, the section also relies on abstracts from NIE-58, "Relations between the Chinese Communist Regime and the USSR: Their Present Character and Probable Future Course" (9 pp., 10 September 1952), and NIE-47, "Communist Intentions and Capabilities in Asia" (10 pp., 31 October 1952).

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China, and to dominate Communist parties elsewhere in Asia. The Chinese Communist leaders will resist Soviet efforts to extend control over the internal affairs of Communist China, and will attempt to strengthen Chinese control over Manchuria, Sinkiang, and Inner Mongolia, and to expand Chinese Communist power and influence elsewhere in Asia.

Economic Development

The gross national product of the Bloc has been increasing in the past few years. Any calculation of its magnitude is necessarily subject to considerable error, and no meaningful comparison can be made with the prewar years for the Bloc as a whole. However, we estimate that the Bloc's national product in 1951 was roughly 15 percent higher than in 1949. The combined gross national product of the entire Bloc in 1951 was about 30 percent that of the NATO states, and USSR gross national product was about one-quarter that of the US.

However, comparisons in terms of total output of all types of goods and services are misleading as indications of relative capacity to produce military equipment in peacetime. The traditional living standards and the controls prevailing within the Bloc enable the Bloc states to assign a much smaller proportion of total output to civilian consumption, particularly of scarce materials and goods, than is feasible in the West. Moreover, these living standards and controls also enable the Bloc to assign a higher proportion of its military outlay to production of actual military end items than is feasible in the West.

The Bloc has the economic capability to increase its exports to the non-Communist world. We believe that even a slight increase of trade with the non-Communist world would constitute an important political warfare weapon.

We believe that Bloc economic policy will almost certainly continue to place primary emphasis upon expanding Bloc productive capacity, especially in those industries basic to industrial growth and military production. The Kremlin will continue its program for integrating the Satellites into the Bloc economy and for increasing its economic ties with Communist China.

Scientific Development

The USSR is by far the leading center of Bloc scientific effort. Since the war, the USSR has benefited considerably from its control over the scientific manpower and research facilities of Eastern Europe and from the German scientists and technicians who were persuaded to go to the USSR.

The USSR is engaged in a large-scale research and development program which has made considerable progress toward bridging the gap between Soviet science and that of the West. The Soviet scientific program includes both pure and applied research, with an emphasis upon applied research in fields of military application, especially atomic energy, electronics, jet aircraft, guided missiles, and submarines. In all of these fields, Soviet scientists and technicians have demonstrated a high level of proficiency.

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The number of people engaged in research and in teaching science in the USSR increased from approximately 30,000 in 1930 to about 150,000 in 1950, when about 200,000 were similarly engaged in the U.S. We believe that a smaller proportion of the Soviet group are engaged in research in the physical sciences than in the U.S. and that a larger proportion are engaged in research in health and agriculture than in the U.S. The number of people in the USSR who have received college educations in scientific and technical fields is probably less than the total in the U.S. However, we estimate that in this school year USSR colleges will probably graduate as many students with scientific and technical training as the U.S.

Military Strength

The armed forces of the USSR, which have undergone modernization since the end of World War II, constitute the core of Bloc military power and will remain the basis of the Bloc military threat to the non-Communist world. The Satellite armed forces, which are still well below those of the USSR in combat effectiveness but which are growing in strength and quality at a rapid pace, already represent a substantial addition to Soviet military strength in Europe. The Chinese Communist Army is the largest and, aside from that of the USSR, the most effective indigenous ground combat force in Asia.

The Bloc now possesses a significant quantitative superiority over the Western Powers in land power, in tactical air power, and in conventional ground and air armament. We estimate that the Bloc armed forces now have:

1. Approximately 8,750,000 men, of which about 4,450,000 are Soviet; 1,550,000 Satellite; 2,350,000 Chinese Communist; 290,000 North Korean; and 130,000 Viet Minh. (These figures include Soviet and Satellite security forces, but not those of Communist China.)
2. An actual strength of approximately 21,000 aircraft, including about 6,700 jet fighters and 900 piston medium bombers; an authorized strength of about 25,000 aircraft, including about 8,400 jet fighters and 1,150 piston medium bombers.
3. A total of at least 164 major surface vessels, and 361 submarines, including 103 long-range types.
4. As of mid-1952, a stockpile of 50 atomic weapons (30-100 kiloton yield). (The actual figure may be half to twice as many as this estimate.)
5. Large stocks of conventional weapons and equipment.

The strength and deployment of Soviet Bloc ground, naval, and air forces, by principal areas, are shown on the maps and accompanying tables, Figures II-A-1 and II-A-2, following page II-A-6. *

* The strength and equipment data on this page are as of 1 October 1952. The map and tables in the Figures were prepared from provisional later estimates and differ slightly. The relative deployments shown remain accurate. The text of NIE-64 (I) contains statements by the intelligence agencies of the U.S. Army, Navy, and Air Force as to the reliability of the data on which the above estimates are based.

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The principal emphasis of the recent Bloc military program has apparently been upon enlarging the atomic stockpile and upon improving Bloc defenses, particularly against air attack. We believe that this emphasis will continue at least through mid-1953. We also believe that the Bloc military forces, particularly those of the USSR and Communist China, which have remained relatively constant in size during the past two years, will not increase greatly in size.

The over-all effectiveness of Bloc ground, naval, and air forces will continue to increase because of progressive modernization and standardization of weapons and equipment, the intensive training program, the increased combat efficiency of the Satellite armies, and the growth of the Soviet atomic stockpile, which will probably total 100 atomic weapons (30 - 100 kiloton) by mid-1953. (The actual figure may be from half to twice as many as this estimate.) * It is unlikely that the USSR will be able to develop and produce a thermonuclear weapon by mid-1953.

The USSR maintains a large air defense system which not only includes the forces assigned to the Soviet air defense organization (PVO-Strany) but also has available to it the active air defense resources of the Army, tactical air forces, and Navy not otherwise committed, as well as the passive defense resources of the police and civil organizations. The Satellite and Communist Chinese air defenses add to and are integrated with the Soviet system. Despite significant improvements in the air defense system, there will probably continue to be insufficient numbers of trained and experienced pilots and operators, modern radar, heavy AA guns, and fighters designed specifically for all-weather interception to provide defense for all important areas. We estimate that by mid-1953 the numerical strength of the air defense forces will not change, although the effectiveness of the air defenses will improve through re-equipment and training. (The known radar warning installations surrounding the USSR are shown in Figure II-A-3, following page II-A-6.)

The Bloc possesses a good logistical position for military operations in Europe. We believe that military stockpiles west of the Soviet border and within the USSR are sufficient to maintain a mobilized army in combat in Europe for several months without recourse to new production, except in the case of POL. The road, rail, and inland waterway nets in Eastern Europe are adequate to permit full utilization of those Bloc divisions now in Eastern Europe and, in addition, to move and support a considerable number of additional divisions from the USSR.

The economic base for Bloc military operations in the Far East is limited in comparison with that of the Bloc in Europe. The logistical position is restricted by the capacity of the Trans-Siberian railroad and the long sea routes, by the limited transportation facilities of Communist China, and by the underdeveloped status of the Soviet Far Eastern and Chinese Communist economies. However, despite these limitations, the USSR has equipped and provisioned the North Korean

* Estimates of the future Soviet atomic stockpile are currently being reviewed.

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Army and has furnished the Chinese Communists with large amounts of equipment and POL. While we do not know what proportion of these supplies were drawn from stocks in the Far East, we believe that Soviet forces in the Far East now have sufficient supplies and equipment (with the exception of POL) to support 30 divisions in combat from 6 months to one year. We also believe that the Chinese Communist economy, with Soviet economic assistance, could support the Korean war effort at current levels through mid-1953 and that it would be able to support, at least in the initial phases, a war in the Far East which involved, in addition to the Korean war, Chinese Communist military operations elsewhere in Asia.

Military Capabilities

We believe that in the period through mid-1953 the Bloc will continue to possess substantial military capabilities. During this period the Bloc will be capable of undertaking concurrent large-scale operations in continental Europe, the Middle East, and mainland Asia. The Bloc could rapidly reinforce with Chinese Communist and Soviet forces the Communist forces now in Korea, and at the same time undertake an invasion of Japan by Soviet forces.

The USSR will be capable of undertaking sustained air offensives against the UK, most of Continental Europe, most of the Middle East, and Japan, with the intensity of individual offensives varying according to the number of offensives undertaken simultaneously. It is also capable of undertaking the delivery of its full stockpile of atomic weapons against targets in these areas and against targets in the U.S. and its overseas bases.

The USSR will also be capable of undertaking both offensive submarine patrols and mining operations along most of the world's strategically vital sea lanes and short-haul amphibious operations in the seas adjacent to its own coasts.

The Bloc air defense organization will be capable of vigorous opposition to an air offensive against principal Soviet centers. However, despite marked improvements in the Bloc air defense system (especially in the USSR, Eastern Germany, Poland, and Manchuria), deficiencies will remain throughout this period.

Political Warfare Capabilities

Political warfare plays an unusually important role for Communists, who consider military warfare only an extension of political warfare in their persistent campaign to undermine the strength of the non-Communist world. Soviet Bloc political warfare techniques include political and economic pressure, diplomatic action in the UN and elsewhere, propaganda and front activities, the action of Communist Parties and Communist Party-controlled trade unions outside the Bloc, sabotage, exploitation of subversive and revolutionary movements and of civil wars, and psychological warfare.

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The principal sources of strength upon which Bloc political warfare capabilities are based consist of the Bloc's military capabilities; the size, power, and centralized leadership of the Bloc; Communist doctrine; and the Communist international movement.

During the period through mid-1953, the Communists almost certainly will not be capable of overthrowing any non-Communist government either by constitutional process or by revolution, except possibly in Iran. However, Bloc capabilities for political warfare will continue to constitute a serious danger for the non-Communist world throughout this period. The Communist Parties in the non-Communist world — with an estimated membership of 3,750,000 — are tightly organized for action and form a world-wide network under Kremlin direction. Through this organization, the Kremlin is able to conduct undermining attacks on established regimes, to exploit national rivalries, to utilize minority groups and political factions, and to capitalize on economic, political, and military difficulties. The organizational effectiveness of the Parties makes them far more formidable than their numerical size alone indicates.

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SOVIET BLOC

B. SITUATION IN THE USSR THROUGH MID-1953 *

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Political

Stalin will almost certainly remain undisputed Soviet ruler provided he remains in good health. Although the death of Stalin would be a shock to the Soviet regime, we estimate that the immediate transfer of authority to another leader or group would be affected in an orderly manner.

There probably have been disagreements on major policy matters within the Politburo and rivalries for Stalin's favor and for positions of advantage after Stalin's death. However, it is most likely that such rivalries and disagreements will seriously affect the unity and resolution of the Politburo or of its successor in the near future.

The Communist Party of the USSR remains the foundation of authority and the principal instrument of rule. Its leadership, organization, and discipline appear to be firm. Although there may be stresses within the Communist Party and between the Communist Party, the Secret Police, and the Soviet armed forces, there is no evidence that these stresses constitute a threat to the regime. Moreover, it is probable that the unity of the ruling groups would increase if the regime were subjected to increased external pressure.

The regime's control over all activity within the USSR remains thorough and apparently effective. Current internal stresses and strains—such as the dissatisfaction of some of the national minorities, the resistance of the peasants to recent agricultural programs, and dissatisfaction among large numbers of the population over low living standards and over the severity of police controls—appear less serious than at any time since the early 1930's.

The areas annexed to the USSR since 1939 have been effectively integrated into the Soviet system. Local resistance has been systematically suppressed, but not altogether eliminated. The economic, political, social, and demographic reorganizations of those areas have weakened the foundations for opposition to Soviet rule and have created machinery for ensuring continued Soviet control and direction.

The years of isolation and indoctrination and the current "Hate America" campaign have almost certainly reduced the reservoir of popular good will toward the US.

The proceedings of the recently concluded Nineteenth Congress of the Communist Party of the USSR presage a continuation of internal economic and social policy along the general lines established in the period immediately prior to World War II. The continued coalescence of Party

* With respect to economic and military matters, this section is based largely on the just-completed NIE-64 (I), "Soviet Bloc Capabilities through Mid-1953" (approximately 8 pp., with three accompanying appendixes, to be published approximately 5 November 1952).

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and government leadership was clearly indicated by the activities of the Congress. At the top political level, the level of the old Politburo, power over the Soviet state and the Communist Party will continue to be exercised by Stalin and his closest collaborators behind the decorative facade of the new twenty-five man Presidium of the Party's Central Committee. Moreover, there are indications that Party leadership at the lower political and economic levels will continue to remain in the hands of the same post-revolutionary generation which Stalin put into power after the purges of the 1930's. *

Economic

The economy of the USSR had recovered its prewar level of total production by 1948 and had surpassed that level by an estimated 20-30 percent in 1951. This high rate of advance has been achieved despite factors severely limiting expansion. Labor productivity in all major sectors of the economy is low by U.S. standards. A high proportion of the labor force must still be assigned to agriculture and remains unavailable for industry. For example, about half of the population of the USSR is rural, compared with about one-fifth in the U.S. (See Chart, Figure II-B-2, following page II-B-6.) Shortages of trained engineers and technicians, specialized machinery, and industrial power and fuel constitute other major factors limiting industrial expansion, although progress has been made toward overcoming these deficiencies.

Soviet production in most industries is still far below that of corresponding U.S. industries. For example, Soviet petroleum production in 1951 was only one-eighth that of the U.S.; raw steel, less than one-third; aluminum, less than one-third; copper, less than one-fifth; lead, less than one-eighth; zinc, about one-fifth; tin, about one-fourth; coal, slightly over one-half; electric power, less than one-fourth; cotton, less than one-eighth; and cement, less than one-third. Where Soviet production exceeds that of the U.S., as in nickel and wool, U.S. imports usually more than offset the difference. (For present estimates of Soviet production and projected future growth in selected key fields, compared to the U.S., see Chart, Figure II-B-3, following page II-B-6.)

However, production comparisons are misleading as indications of relative capacity to produce military equipment in peacetime. The traditional living standards and the controls prevailing enable the Kremlin to assign a much smaller proportion of total output to civilian consumption, particularly of scarce materials and products, than is feasible in the U.S. Moreover, these living standards and controls also enable the Kremlin to assign a higher proportion of its military outlay to actual munitions production than is done in the U.S. and other Western countries.

We believe the USSR now devotes about one-fifth of its gross national product to military expenditures. We further believe that since 1948 it has annually assigned about one-fourth of its gross national product

* This paragraph should be regarded as a partial and preliminary summary of the implications of events at the Congress. More detailed studies are in progress.

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to investment (compared to about one-fifth, comparably defined, in the U.S.) It has maintained a large military establishment, accumulated strategic reserves and inventories of military end-items, and slowly raised the Soviet standard of living from the wartime low point to a level approaching, or possibly somewhat exceeding, that of the immediate prewar years. Soviet capital development has continued to emphasize those industries which constitute the base both for further industrial growth and for direct military production.

The Soviet economy is much better prepared now to support a major war effort than it was in 1940.

(a) The USSR has basic resources adequate to double its current production of military end-items, although a mobilization period of one to two years would be required.

(b) If, by mid-1953, the military expenditures claimed 40 percent of the Soviet gross national product, as they did in 1944, the USSR could probably support as large a military establishment as in 1944 and at the same time devote twice the volume of resources to the production of armaments as in 1944.

(c) Very little evidence is available concerning the size of current Soviet strategic stockpiles, but we estimate that for at least the last two years the USSR has annually devoted about 2 percent of its gross national product to strategic stockpiles, including factory reserves of raw materials and equipment for emergencies and reserves of capital equipment to facilitate conversion to full-scale war production.

(d) The Soviet dispersal and expansion of industry as well as the regional self-sufficiency programs have made the economy less vulnerable to enemy action.

The extremely high rate of post-war economic expansion probably cannot be maintained in the new Five Year Plan recently announced. The estimated rate of growth, which was lower in 1950 than in 1949 and was still lower in 1951, will probably continue to decline gradually, although it will remain higher than that of any other major world power. * In any event, the absolute growth in gross national product will annually become greater. With most of the annual increment used to expand war production, enlarge the economic base, augment stockpiles, and decrease industrial vulnerability to enemy action, the Soviet economic capability to engage in global war will steadily increase.

Military **

The armed forces of the USSR, which constitute the core of Bloc military power, will almost certainly increase in combat effectiveness through mid-1953. If general war does not occur, we believe that Soviet ground forces will remain at approximately their present strength, 2,500,000 troops organized into 175 line divisions (of which 105 are rifle, 40 mechanized, 25 tank, and 5 cavalry) and additional artillery and anti-

* The Chart in Figure II-B-1, following page II-B-6, gives a comparison of U.S. and USSR rates of growth in selected segments of the economies.

** The basic deployment of Soviet ground, naval, and air forces is shown in Figures II-A-1 and II-A-2, following page II-A-6 above.

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aircraft artillery divisions. The Soviet security forces will probably also remain at approximately their present strength, 400,000 troops. The armament, the mobility, and the capability of these forces for sustained combat will continue to improve, but the various armies, corps, and divisions will continue to vary greatly in quality.

We estimate that the Soviet Air Forces have in operational units an actual strength of 18,100 aircraft against an authorized strength of 20,400, almost half of which are fighters. * In addition, we estimate that Soviet reserves of military aircraft total approximately 20,000. There is insufficient data available to permit a sound estimate of the composition of the reserve; however, we believe that most reserve aircraft are World War II piston types and that few, if any, medium bombers or light jet bombers are stored in reserve. Although the size of the total air establishment is not likely to change appreciably through mid-1953, a significant increase in over-all operational effectiveness will result as conversion to jet fighters and bombers progresses.

We estimate that Soviet Long-Range Aviation, the strategic bombing force of the USSR, now has an actual strength of 900 TU-4 medium bombers (modeled after the U.S. B-29) against an authorized strength of 1,150, and that it will have an authorized strength of 1,200 TU-4 medium bombers by mid-1953. We believe that the over-all combat effectiveness of Soviet Long-Range Aviation remains well below that of the U.S. and UK strategic air arms. The average Soviet medium bomber crew is considered less skilled than the average U.S. medium bomber crew of World War II. Within the period of this estimate, selected crews probably could, within limitations set by equipment, approach standards attained by present average U.S. crews. Soviet staff planners lack the extensive operational experiences obtained by the U.S. and UK. Soviet Long-Range Aviation is known to be undergoing an intensive training program for strategic bombing missions.

The Soviet Air Forces are becoming increasingly effective, particularly with respect to bomber interception. However, the combat effectiveness of Soviet military aviation is still considered low by U.S. standards. We believe that the general level of training of Soviet ground and air personnel is inferior to that of U.S. and UK personnel. The USSR is conducting an intensive training program to remedy this defect.

The USSR's large Air Defense system (PVO) includes an extensive early warning network, a force of interceptors with an estimated authorized strength of 2,800 (including 2,300 jets), and an unknown number of antiaircraft divisions. The active air defense resources of the early warning, fighter, and antiaircraft units of the Soviet armed forces are also available to the PVO for air defense purposes, as well as the passive defense resources of the police and civilian organizations. The air defense systems of the Satellites and of Communist China add to and are integrated with the Soviet air defense system. Considering tactical fighters as well as those in air defense units, we estimate total Bloc au-

* The average levels of actual strength for various types are, in terms of authorized strength, estimated to be 80/85% for jet fighters, 75/80% for medium bombers and 90/95% for all others.

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thorized fighter strength at approximately 13,000. Other commitments would prevent utilization of all this force for air defense purposes. Despite marked improvements in this system, deficiencies will continue to exist during the period of this estimate.

We estimate that the Soviet Navy now has a total of at least 158 major surface vessels, comprising three old battleships, one monitor, 7 heavy and 11 light cruisers, and 136 destroyers, one-third of which are coastal types. In addition, we estimate that there are 361 submarines, of which 103 are long-range types with a combat radius of 6,000 nautical miles. The Soviet submarine force is already numerically the largest in the world. All the above vessels, and most of the 1,700 lesser Soviet naval vessels, carry mines and are equipped to lay them. Naval aviation is trained in mine warfare. We believe that the USSR now has a stockpile of approximately 420,000 mines. Although most of these are moored contact types, there are considerable number of magnetic, acoustic and pressure-actuated types, including some which probably combine two or more of these actuation systems. We estimate total annual production at 82,000 mines of all types.

Soviet naval strength will be increased during the period of this estimate by the construction of an estimated 8 cruisers, 34 destroyers, and over 40 submarines. However, the Soviet Navy will continue to lack a carrier air force.

The USSR is now believed capable of quantity production of uranium-235 and plutonium for the manufacture of atomic weapons. It is estimated that in mid-1952 the USSR had a stockpile of 50 atomic weapons (30 - 100 kiloton yield), and that by mid-1953 it will probably possess 100 weapons. (The figures in these estimates may be from half as many to twice as many as indicated.) * It is unlikely that the USSR will be able to develop and produce a thermonuclear weapon by mid-1953.

The USSR has achieved marked progress in the field of electronics since the end of World War II, and is capable of independent research and development in this field. In addition to the production of improved early warning, ground control intercept, blind bombing, and modern fire control radar, the Soviets have developed a jamming capability which is a serious threat to Western long-range and short-range military radio communication and navigation systems. If there is any future limitation on Soviet progress in electronics, it will be due more to Soviet policy decisions regarding the allocation of resources rather than to scientific and technical shortcomings.

With the aid of German engineers and labor the USSR has developed a guided missile program. By mid-1953 it probably will develop and produce some types of surface-to-surface, surface-to-air, and air-to-air guided missiles.

Through mid-1953 the Kremlin will almost certainly place a high priority upon continuing to enlarge its atomic stockpile and to improve

* Estimates of the future Soviet atomic stockpile are currently being reviewed.

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its defenses, especially against air attack. In addition, continued emphasis will be placed upon the further dispersion of Soviet industry in order to reduce the vulnerability of the USSR to air attack.

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SOVIET BLOC

C. EUROPEAN SATELLITES *

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Political

The subservience of the Communist regimes of the Eastern European Satellites to the Soviet Union is insured by the close and effective control exercised by Moscow. No serious internal threat to the continued Communist enslavement of the area exists.

Despite the apparent hopelessness of their situation, however, the peoples of Eastern Europe have not lost the will to resist, and overt expression of resistance, although varying considerably from Satellite to Satellite, continues to appear. Tiny individual resistance bands continue to operate in Poland despite determined efforts of the Polish Security forces to eradicate them. Throughout the Satellites, peasants still are hostile to collectivization measures.

With the consolidation of Communist control in the Satellites, there has developed gradually a similarity with the Soviet Union's political, judicial, and administrative forms. The most recent examples are the promulgation late this summer of the Polish and Rumanian constitutions, which are very similar to that of the USSR. Following party and governmental changes in Czechoslovakia in 1951 and in Rumania and Hungary this summer, the leaders of all Communist Parties now also hold the top governmental posts. Through alterations of this type the local Communist regimes have strengthened ties between each other and with the USSR, gradually eliminated political traditions, and increased their security.

The recent purges in the Satellites follow the Soviet pattern of perpetually "cleansing" regimes in order to permit the Kremlin to pursue its policy more effectively. No apparent consistent pattern has emerged which would permit a satisfactory generalization as to the motivating factor or factors behind the shifts in leadership in these countries.

In East Germany the Communist government responded to the initialing of the Contractual and EDC agreements in May 1952 with a vigorous program, including, as a preliminary step, the isolation of East Germany from the West. New and severe border security measures were decreed, new entry and exit regulations imposed, and a sharp increase in internal surveillance directed.

During the summer months of 1952, a reorganization of the East German government at the highest level, in provincial administration, and in the judicial system was carried out. This reorganization achieved a rigorous centralization and concentration of authority, guaranteed the dominance of the Socialist Unity Party, organized the

* This section is based in part on NIE-33, "Soviet Control of the European Satellites and Their Economic and Military Contributions to Soviet Power, through Mid-1953" (17 pp., 7 Nov. 1951). That estimate remains substantially valid.

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administrative apparatus to support the implementation of the economic plan, and eliminated the last vestiges of judicial independence.

In Albania recent reports indicate increased resistance activity, and Albanian government leaders have shown concern over the increase in Yugoslav and other propaganda against the regime. Despite isolated resistance activities against the Tirana regime and internal rivalries within the Communist Party — both of which have been endemic ever since Albania was isolated from the Bloc in the summer of 1948 — the regime has been and still appears to be able to maintain firm control of the situation.*

Economic

The Soviet economy has been strengthened by the acquisition of the resources, productive capacities, and industrial potential of the Satellites. Of current total Bloc output, for example, we estimate that the Satellites produce approximately 60 percent of the uranium ore concentrates, 50 percent of the coal, 30 percent of the electric power, 25 percent of the steel, 20 percent of the sulphuric acid, and 10 percent of the copper. In the engineering industries, the Satellites produce an important proportion of a number of items critical within the Bloc: for example, an estimated 40 percent of total Bloc production of electric motors and generators, 45 percent of electronic tubes, and 20 percent of anti-friction bearings.

A revised program of Soviet control over the Satellites began to take form late in 1948, providing for the carefully planned industrialization of the Satellite countries and their integration into the Soviet economic system to achieve the following results:

- (a) Control of these countries and of their economic development by the USSR and the creation of Soviet-type socialized economies.
- (b) Maximum Satellite contribution of their present resources and production to Soviet economic and military strength and the reorganization of the Satellite economies so that they will become permanent, constantly more valuable additions to Soviet strength.
- (c) Economic dependence of the Satellites upon the USSR and their independence from the West, depriving the West of the economic advantages it formerly enjoyed in Eastern Europe.
- (d) Development of the Satellite strength so that the Satellites, or a group of them, may have the capability of Soviet-sponsored localized war and so that the Satellites may make their maximum contribution to Soviet strength in a general war.

Currently, the planned expansion of industry in the Satellites far exceeds the supply of available skilled labor and management and the estimated ability to train skilled workers, technicians, and managers. The Satellites lack adequate supplies of many of the raw materials and

* The situation in Albania is analyzed more fully in NIE-42, "The Current Situation in Albania with Particular Reference to Greek, Yugoslav and Italian Interests" (5 pp., 20 November 1951). The analysis in that estimate remains substantially valid.

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capital equipment necessary for the development of modern industrial economies, and these same items are also now in short supply within the USSR itself.

Military *

The European Satellite armies now have an estimated 1,157,000 troops (excluding the estimated 82,000 men in the East German Alert Police), organized into 63 line divisions and various other types of units. In addition, security forces account for an estimated minimum of 268,000 troops. The Satellite ground forces have grown steadily since World War II, but their combat efficiency and reliability remain generally only fair.

The Eastern European forces are closely integrated with those of the USSR though not with each other. There is no evidence of joint military exercises or maneuvers. Some degree of uniformity has been achieved, however, through the gradual acquisition of Soviet military equipment, the adoption of Soviet training and field techniques, the general use of Soviet advisers and instructors, and the reorganization of tactical formations along Soviet lines.

The mission of the Satellite air forces, which now have an estimated actual strength of approximately 1,500 aircraft (authorized strength of 2,600 aircraft) is primarily defensive. An extensive program of airfield construction, in which East Germany has received major emphasis, has been carried out since 1945 in all of the Satellites except Albania. There are 66 major operational airfields with runways of 6,000 feet or over in Eastern Europe and 29 more known to be under construction.

The capabilities of the Satellite navies are currently negligible.

The outstanding recent military development has been the strengthening of Soviet air defense by allocation of jet fighters to all the major Satellites and the modernization of the early warning nets in the Satellite areas (see Figure II-A-3 above, following page II-A-6). For this latter program East Germany and Czechoslovakia are developing into sources of components for modern electronic equipment, and Hungary is manufacturing gun-laying radar.

Estimate of Probable Internal Developments Through Mid-1953

The European Satellites will continue to be dominated by the USSR, which can be expected to maintain its authority over them through political, economic, and ideological means and through police power.

The rate of agricultural collectivization will probably be carried on at the moderately increased tempo noted during 1952. The expansion of Satellite industrial production, which began to level off during the first half of 1951, will continue, but will be limited by manpower, management, and raw material deficiencies.

* For detail on the ground, air, and naval forces of individual Satellites, see the tables in Figures II-A-1 and II-A-2, following page II-A-6 above. The data in the tables is based on provisional estimates of a later date than the firm ones used in the text here, which are good as of 1 October 1952. There may therefore be minor variations.

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The Satellite armed forces will continue to expand and will probably reach an estimated strength of about 1,750,000 troops by mid-1953. This figure includes security forces and the East German Alert Police. There are no indications that the USSR will bring about the integration of the Satellite armed forces, but their reliance on Soviet logistic support will encourage continued military development along uniform lines.

The reorganization of East Germany along Soviet lines and the incorporation of that area into the Bloc as a full-fledged Satellite will probably constitute the principal development in Eastern Europe. Measures to be taken to this end are likely to include development of the present People's Police into regular army formations, reaching an estimated 150,000 troops by mid-1953, mutual assistance treaties linking East Germany with the Soviet Union and the Satellites, elimination of the bourgeois parties from the National Front, complete nationalization of business enterprise, and an ideological offensive against the remaining non-Communist institutions in the religious and educational fields. There is evidence that some of these measures are already being launched, but full propaganda exploitation is not apt to be given them until the Contractual agreements and EDC treaty have been ratified by the West German Republic.

As to Albania, we estimate that Yugoslavia would almost certainly seize any opportunity to establish a pro-Yugoslav regime in Albania if it could be done without incurring serious risk of provoking Western disfavor or Soviet retaliation. We believe, however, that for the present the Yugoslavs will continue to exert political pressure without directly intervening or deliberately precipitating a coup attempt.*

* This paragraph is taken from NIE-42/1, "Yugoslav Intentions Toward Albania" (2 pp., 20 Oct. 1952).

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D. COMMUNIST CHINA

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Political

The Peiping regime, established in October 1949, is in firm control of mainland China. Organized opposition to the regime is estimated to consist of fewer than 100,000 scattered guerrillas.

Although the Peiping regime is allegedly a multi-party government, it is completely controlled by the Chinese Communist Party, whose leaders occupy all key positions at the national, regional, provincial and local levels. The leaders of the Chinese Communist Party have repeatedly proclaimed and demonstrated their commitment to the Soviet world view and the Soviet world program. * The bulk of the Party, which with 5,800,000 members is second in size and prestige to the Soviet, is being indoctrinated and purged to conform with the Stalinist orientation of its leadership.

The Chinese Communist Party is working toward absolute control of the 475,000,000 Chinese people. The Party's domestic policies toward the peasantry, urban labor, merchants and industrialists have been designed with the primary objective of tightening its grip on these "four friendly classes." At the same time the Communist security apparatus has moved to eliminate actual and potential opposition and has executed or forced into slave labor millions of Chinese. Popular support for the regime has declined greatly since 1949, but the Chinese people are effectively mobilized for Communist purposes.

China plays the leading role in the execution of the Communist program in the Far East. It has made a greater manpower contribution to the Communist cause in Korea than have the North Koreans themselves. Peiping also attempts to exert economic and psychological pressure on Japan. It has been the main source of outside aid to Communist-led "liberation" movements in the Far East, and it remains capable of intervening on behalf of such movements on the mainland of Southeast Asia.

Although the USSR enjoys extensive political and economic influence in the border regions of Sinkiang, Inner Mongolia, and Manchuria, the trend since 1950 in these areas appears to be towards an increase in Chinese Communist administrative control.

Economic

The consolidation of Communist control, the war in Korea, and Western trade restrictions have placed heavy burdens on China's economy. Available evidence, although extremely fragmentary, indicates that Chinese Communist Government military expenditures probably doubled in 1951 over 1950. Austerity has been keynoted by the regime dur-

* Sino-Soviet relations are discussed more fully in section II-A, at pages II-A-1, 2 above.

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ing the past year. The operation of the existing production plant at near capacity levels has created serious maintenance problems, notably in the vital railways and power plants. The requirements of the armed services and a rapidly expanding bureaucracy have confronted the regime with severe shortages of administrative and technical personnel. China's trade with the West has sharply declined, largely as the result of Western export controls.* Although this decrease has been increasingly offset by commerce with the Soviet Bloc, the Chinese have suffered shortages of certain critical items such as copper, lubricants, and motor vehicle tires. There is no evidence, however, that economic tensions are threatening Communist control, or will force the Chinese to abandon their war effort in Korea.

Despite the strains discussed above, the Chinese Communist economy exhibits certain elements of strength. Agricultural production, which is the basis of the Chinese economy, has been favorable for the past two years. Available evidence indicates that over-all industrial output in China has increased steadily since 1949. This increase has probably been due to rehabilitation of existing facilities. Further production increases, however, will be less rapid as operable capacity of existing facilities is approached. The Chinese Communists have made considerable progress in restoring and extending transportation networks in China. They have completed a strategic rail line to the Indochina border, constructed the first railroad in Szechwan, extended rail surveys and construction toward the Sinkiang-USSR border, and improved motor highways. Government finances have been skillfully managed by the Communists. The record of fairly stable prices in China indicates that the Communist have not been forced to issue large amounts of paper money to cover their expenditures.

An embargo and blockade against Communist China, if effective, would probably prevent any further expansion of Communist China's industrial output. Increasing maintenance and repair difficulties would be experienced as a result of the denial of replacement capital goods from the West. In addition, an embargo and blockade would compel Communist China to rely on overland shipments from the USSR for virtually all its imports, would tend to lower the quality and increase the costs of industrial production, would increase the existing strains on the railways, and would add significantly to inflationary pressures. However, blockade would not alone insure the regime's collapse.**

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** A detailed discussion of this question is contained in SE-27, "Probable Effects of Various Possible Courses of Action with Respect to Communist China" (18 pp., 5 June 1952). This estimate considers the consequences of the possible imposition of an embargo or naval blockade, or of certain air operations not confined to Korea.

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Military

Chinese Communist ground forces consist of 2,350,000 regular troops, organized into four field armies which include 69 armies and 230 divisions. Nearly one-third of these forces — 17 armies, nine artillery divisions and other supporting units, a total of 760,000 troops — are committed in Korea. In addition to the regular field forces, there are at least 7 million partially trained and equipped military district, militia and public security troops. The Chinese Communist Army is the largest and, aside from that of the USSR, the most effective indigenous ground combat force in Asia. The combat effectiveness of Chinese Communist ground forces in the Korea-Manchuria area is substantially greater than that of the forces located in China proper. The Chinese Communist Army has the capability of undertaking military operations elsewhere in Asia concurrently with operations in Korea. The deployment of major Chinese Communist ground and air units is shown on the map, Figure II-D-2, following page II-D-3.

Since the beginning of the Korean war, the Communist Air Force in China, which is believed to be made up of Chinese Communist, North Korean, and Soviet elements, has been built to an impressive size and now consists of an estimated authorized strength of 2300 combat aircraft, including 1400 jet fighters, most of which are in Manchuria.* The capabilities of the CAF in China are largely limited to the air defense of North China, Manchuria, and North Korea under conditions of good visibility, and to limited attacks against UN forces in Korea and adjacent waters. The offensive capabilities of this air force will remain extremely limited, unless some type of light jet bombardment aircraft is introduced.

The Chinese Communist Navy consists of approximately 119 combat vessels, including 70 escort and patrol vessels and 40 amphibious craft. The Navy has 25,000 men, including marines. The capabilities of the Chinese Communist Navy will remain slight. It has limited capabilities for coastal minelaying, motor torpedo attacks, and short-haul amphibious lifts.

Chinese Communist armed forces are capable of maintaining internal security; defending China against an attack by any Far Eastern power; maintaining the commitment in Korea; and overrunning Hong Kong, Macao, Indochina, Burma, and Thailand if opposed only by the forces currently in these areas.**

Estimate of Probable Internal Developments ***

We believe that during the next year, the Chinese Communist regime will further consolidate its control; there will be increased socialization of the economy; and some increase in military capabilities for both offensive and defensive operations.

* No estimate of actual strength has been made.

** Provided that U.S. naval and air forces are available to defend Taiwan, a Chinese Communist invasion of Taiwan would almost certainly fail.

*** External Communist courses of action in Asia are discussed in Section III-A, below.

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III. FAR EAST

A. COMMUNIST CAPABILITIES AND INTENTIONS
IN ASIA THROUGH MID-1953 *

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We believe that the USSR and Communist China are united in their determination to eliminate Western power and influence from Asia.**

During the period of this estimate, Soviet and/or Chinese Communist forces in Asia will almost certainly continue to have the capability of conducting the following operations concurrently: (a) overrunning Hong Kong, Macao, Indochina, Burma, and Thailand if opposed only by the forces currently in these areas;*** (b) rapidly reinforcing with Chinese Communist and Soviet forces the Communist forces now in Korea, and at the same time undertaking an invasion of Japan by Soviet forces; and (c) attacking Western shipping in the Pacific by submarines and mines and conducting air attacks and surface raids against Western bases and shipping in the western and northern Pacific.

The Communists probably estimate that an attempt to seize additional territory in Asia by the identifiable use of Chinese Communist or Soviet forces would stiffen non-Communist opposition, particularly in Asia, and might create grave danger of war against mainland China, of general war in the Far East, or even of global war. The Communists probably also estimate that the economic and military vulnerabilities of Communist China and the Soviet Far East would make the outcome of a general war in the Far East at best uncertain. Finally, the Communists are probably confident that further progress can be made towards the achievement of their objectives in Asia by political warfare. We believe, therefore, that during the period of this estimate the Communists will refrain from initiating new courses of action involving the identifiable use of Chinese Communist or Soviet forces.

We believe that during the period of this estimate the Communists will not intensify their efforts to overthrow non-Communist Asian governments by the open rebellion of indigenous "armed liberation" movements. Such movements have been reduced in effectiveness or stalemated, and the overthrow of non-Communist governments through these movements would now require Chinese Communist or Soviet intervention of such magnitude as to entail the possibility of war against mainland China, general war in Asia, or even global war.

In Korea, the Communists will probably not take the initiative to break the military stalemate during the period of this estimate. We believe that the Communists will protract the armistice negotiations

* This section is the verbatim conclusions of NIE-47, "Communist Capabilities and Intentions in Asia through Mid-1953" (10 pp., 31 October 1952).

** Asia, as here used, includes Japan, Taiwan, the Philippines, Indonesia, Ceylon, and all of mainland Asia east of (but not including) Iran and Afghanistan.

*** Provided that U.S. naval and air forces are available to defend Taiwan, a Chinese Communist invasion of Taiwan would almost certainly fail.

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so long as they consider that they can continue to gain political and military advantages from the situation in Korea and so long as they estimate that a continuation of the Korean war does not involve grave risk of global war.*

With regard to Indochina, the Chinese Communists will probably continue their present type of support to the Viet Minh, but probably will not invade Indochina or introduce large numbers of combat troops in the guise of "volunteers."

In Malaya, the Communists will continue guerrilla warfare against the British but will probably not receive increased aid from the Chinese Communists.

Communist political warfare capabilities in Asia continue to be great although they have declined somewhat in a number of countries since 1950. These capabilities will probably remain substantially unchanged during the period of this estimate.

Throughout the period of this estimate the Communists will give a high priority to strengthening their organization in non-Communist countries, weakening Asian ties with the West and exploiting Asian neutralism. At the same time, they will make organizational and psychological preparations for the intensification of "armed liberation" movements at a later date. The Bloc will increase its use of economic inducements to influence the governments and peoples of Asia. These Communist tactics will be used with particular vigor in efforts to prevent the resurgence of an armed and non-Communist Japan.

We believe that the Communists will not significantly increase their power and influence in Asia during the period of this estimate. However, the Communists will probably make some progress in their efforts to strengthen both their economic and industrial base and their armed forces in order to increase Communist influence in Asia and become better prepared to resist possible Western pressures, and, if necessary for the attainment of Communist objectives, to apply military force against neighboring countries.

* The Special Assistant, Intelligence, Department of State, concurs in the conclusion that the Communists will probably not take the initiative to break the present military stalemate in Korea. However, he finds that the second sentence of the paragraph, which carries an implication that the Communists might accept UN cease-fire terms if the UN were to threaten an expansion of the Korean war, is not supported by available intelligence. He believes that available intelligence does not enable us to estimate whether the unwillingness of the Communists to conclude an armistice on terms currently offered by the UN will continue throughout the period of this estimate. (Footnote to NIE-47.)

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FAR EAST

B. STRATEGIC RESOURCES OF THE FAR EAST *

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The Far East is an important source of a large number of strategic and basic commodities required by the U.S. and other areas of the Free World. Of these, tin, tungsten, chromite, rutile, rubber, abaca, coconut oil, and wool would probably represent the most serious losses to the Free World defense potential. The loss of certain basic food commodities — wheat, rice, dairy products, and meat — would be critical to the United Kingdom, South Asia, and other Far East countries. While no single item is of such importance that its loss would compel an immediate reduction in defense production and essential civilian consumption, the cumulative importance of the many commodities is such that the loss of the area, or important parts of it, would be a severe one to the rest of the Free World from this standpoint alone.

The Far East now furnishes over 60 percent of the Free World supply of tin, and loss of this would mean drastic reduction of non-essential uses and withdrawals from stockpile. The Far East supplies roughly 70 percent of the Free World's supply of rutile, 30 percent of the tungsten, and 20 percent of the chromite. Dependence on the Far East for these commodities can be lessened during the next few years by further development of alternative sources and substitutes. Even though the Far East supplies nearly 90 percent of the world's exportable surplus of natural rubber, it is estimated that loss of the area could be covered from synthetic production and withdrawals from stockpile for a period of at least five years.

It is not considered likely that there will be any substantial increase in the near future in the availability of natural or agriculture resources in the Far East area. Generally speaking, the loss of the metals and other natural resources would be most serious to the U.S. and the more industrialized Free World nations, whereas the loss of the agricultural commodities, except wool and abaca, would be less serious to the U.S. than to other areas of the Free World.

Importance of Individual Countries. Individually, countries of the Far East vary considerably in the importance of their strategic resources. The loss of Indonesia (tin, rubber, bauxite, coconut oil, cinchona bark, and others), Malaya (tin, rubber, and coconut oil), Australia and New Zealand (wool, rutile, lead, zinc, wheat, meat and dairy products), the Philippines (chromite, abaca, coconut oil, and others), and Japan (silk, tea, but primarily her potential industrial capacity) would be most serious. In the next category of importance would be Thailand (rice, shellac, relatively small amounts of tin, tungsten, and

* This section is an extract from the contribution of the Economic Intelligence Committee (representing all major intelligence agencies and interested Departments) to the pending NIE-56, "Consequences of Loss of Important Economic Resources of the Far East." It is expected that this estimate will be published in December 1952.

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rubber), and South Korea (chief source of tungsten in the Far East).
Of lesser importance are Burma, Indochina, New Caledonia, Formosa
and other countries.

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FAR EAST

C. KOREA

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Military Situation and Truce Talks (See Map, Figure III-C-1, following page III-C-3).

Despite hopeful indications in the early summer of 1952, the Communists, after 15 months of cease-fire negotiations, remain adamant on the principle that all Chinese captives be returned, and there are no firm indications at present that they will modify this demand. A complete turnabout, similar to the abrupt reversal in late 1951 over the issue of the cease-fire line, could occur without advance warning. Current Communist propaganda accuses the U.S. of "scuttling" the talks and of attempting to coerce UN members at the General Assembly into more aggressive measures.

The relatively stagnant military period since the truce talks began in July 1951 has provided the enemy with an opportunity roughly to double his ground forces in Korea and his air forces in Manchuria. (See table at right in Figure III-C-1.) Over and above the increase to a million-man army, other changes have taken place. The enemy now has artillery which is capable of delivering heavy fire support deployed in support of his front-line troops. The continuing reorganization of Communist armored strength may contribute substantially to the effectiveness of what was heretofore primarily an infantry force. The Communist air arm has expanded rapidly, principally with MIG-15 jet fighters, despite substantial losses inflicted by UN interceptors.

Communist ground forces in Korea are capable of mounting a major offensive with little warning. Such an operation, if it resulted in a major advance, would probably be limited, however, to about two weeks, because of the inability of front-line logistical units to displace supplies forward, a handicap which the enemy has apparently not yet been able to overcome. There are no indications that the Communists are contemplating an offensive in the immediate future. Certain prerequisites to such action — the moving up of reserves, forward displacement of artillery, and increased reconnaissance — have not been observed as late as the end of October.

On the contrary, the enemy's principal military concern in the late summer and fall of 1952 has apparently been with the possibility of a UN offensive. Enemy prisoners [] indicate a Communist fear of UN operations on an increased scale. The enemy's front-line dispositions remain predominantly defensive, and fully one-third of his available forces were deployed in October in or near coastal areas vulnerable to UN amphibious attacks. The increase in enemy aggressiveness in September and October has taken the form of Communist limited-objective attacks, designed to capture or neutralize key terrain features along the battle line.

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In the air war, Chinese and Soviet-piloted MIG-15 jets bear the brunt of the Communist effort in northwestern Korea. Despite the ratio of Communist aircraft combat losses to those of the UN (about 8 to 1), the enemy continues to fly a large number of daily sorties in an effort to hinder UN interdiction of Communist lines of supply. There are also signs of improved enemy pilot ability in combat encounters. There are no current indications that the Communists will assume the offensive with their numerically superior jet force. An attempted expansion of air defense over eastern Korea appeared to be under way during October, but there is insufficient evidence as yet to determine the extent and effectiveness of this effort.

Estimate of Probable Communist Courses of Action *

We believe that at least through mid-1953 the Communists could not drive UN forces from Korea unless a major Soviet effort were applied. We do not believe that the USSR will be willing to accept the grave risk of global war which such a commitment would entail.

The Communists in Korea will probably not take the initiative to break the military stalemate. We believe that the Communists will protract the armistice negotiations so long as they consider that they can continue to gain political and military advantages from the situation in Korea and so long as they estimate that a continuation of the Korean war does not involve grave risk of global war.

If an armistice is concluded, we believe that the negotiation of a political settlement will be complicated by Communist injection of Far Eastern issues unrelated to Korea.

Whether or not a political settlement is achieved, we believe the Communist objective to gain control of all Korea will remain unchanged. The Communists will proceed to redevelop North Korea as a militant and armed Satellite, and to subject South Korea to subversion, sabotage, espionage, and guerrilla warfare.

Situation in South Korea

Syngman Rhee's recent re-election will insure relative political stability in South Korea in the near future. The aging president maintains virtually absolute control over the affairs of government and ruthlessly puts down any political rival. Political opposition exists in various disunited factions of the legislature, but is not cohesive or constructive. The government's position on international affairs reflects local aspirations such as unification of all Korea, fear and distrust of the Japanese, and an acute sensitivity about Korean sovereignty. Communist guerrilla activities within South Korea are ineffective.

The major economic problem facing the government is a severe currency inflation. This results mainly from large UN expenditure of local currency and from huge government deficits. Poor distribution facili-

* This subsection is an abstract of NIE-55/1, "Communist Capabilities and Probable Courses of Action in Korea" (12 pp., 30 July 1952), as revised by NIE-47, "Communist Intentions and Capabilities in Asia through Mid-1953" (10 pp., 31 October 1952).

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ties and lower-level government corruption tend to negate the usefulness of increased imports provided by UN aid groups. The 1952 rice crops will probably be adequate, but some grain imports will be needed.

The 350,000-man South Korean army is predominantly an infantry force. Troops in combat units number roughly 150,000; the remainder are in training, or serving as security and service troops. Armor and artillery are being provided in limited quantities, but combat divisions still generally lack adequate supporting weapons. The morale and training of combat units is considered good. Both the South Korean air force, with only a few piston-engined aircraft, and the naval force, of which the largest vessels are destroyer escorts, are small. In addition the South Korean police number approximately 50,000.

Situation in North Korea

The Communist regime in North Korea, proclaimed following the withdrawal of Soviet troops in 1948, is modeled after the Soviet Union. It is led by Koreans born or educated in the USSR. A considerable number of Chinese-trained Koreans and a "domestic" group hold subordinate positions. Rigid police controls comparable to those in any Communist state insure the loyalty of the populace. Anti-Communist resistance, although present, has been largely suppressed and is ineffective.

The North Korean economy has been devastated. Industrial facilities have been destroyed by UN bombing, while the power and transportation systems have been generally disrupted. Severe food and consumer goods shortages plague the regime, and a large-scale famine among the civilian populace is possible. Communist China, the Soviet Union, and other Satellite countries provide some relief goods in addition to massive shipments of military equipment, but civilian suffering continues.

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FAR EAST

E. THE CHINESE NATIONALIST SITUATION ON TAIWAN AND
COMMUNIST CAPABILITIES AND INTENTIONS AGAINST TAIWAN

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The Nationalist Political Situation *

The Nationalist Government is relatively stable, and serious factional strife is improbable so long as President Chiang Kai-shek heads the government. In the event of the overthrow or death of Chiang, a period of factional strife and instability would probably follow before another Nationalist leader could establish his authority.

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Communist activity on Taiwan has been effectively suppressed and is not likely seriously to affect Nationalist military capabilities unless subversive actions were coordinated with a Communist invasion of Taiwan.

The Nationalist Military Situation *

The present combat strength of the Chinese Nationalist Army is 375,000. However, no divisions are ready for offensive operations at the present time. Equipment is in short supply, serious shortcomings exist in unit and combined training.

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The Chinese Nationalist Air Force has in tactical units a total of 311 aircraft. Morale and leadership in the Air Force are good, but combat effectiveness is low because of inadequate spare parts, equipment, and supplies, including POL, and limited operational training and experience. Most important, however, is the fact that the Nationalists have no jet aircraft. The Chinese Nationalist Navy is composed of 160 small vessels, the largest of which are 7 destroyer-escort-type ships. The combat effectiveness of this fleet is low. There are 11,000 Nationalist Marines. In addition to these regular forces, there are approximately 9,000 organized guerrillas on the Nationalist-held offshore islands who have had commando training and experience.

* Except as otherwise noted, these two subsections are abstracted from SE-29, "Present and Potential Offensive Capabilities of the Chinese Nationalists, and Probable Reactions to an Identifiable US Program of Preparing the Nationalists for Offensive Operations against the Chinese Communists" (9 pp., 18 June 1952). This estimate remains valid in essential respects.

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Although there may be as many as 100,000 guerrillas in scattered units on the mainland, few of these units are believed to be effectively controlled or directed by the Chinese Nationalists.

The Chinese Nationalists do not now have the capability to undertake an invasion of mainland China or Hainan or to participate in combat operations in Korea or Southeast Asia. At present, the Nationalists are only capable of conducting minor raids and limited air attacks against the nearby mainland of China. The scope and nature of these operations would be limited primarily by lack of equipment and training. Nationalist air and naval deficiencies will also continue to limit the scale of Nationalist raiding operations against mainland China.

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Chinese Communist Capabilities and Probable Courses of Action against Taiwan *

At the present time there are approximately 400,000 Chinese Communist troops deployed in the coastal areas between Shanghai and Canton which could be utilized for operations against Taiwan. Except for some inferiority in weapons and equipment and in the scale of supporting arms and services, the combat effectiveness of these troops is estimated to be approximately equal to that of the Chinese Communist troops in Korea. In case of an armistice in Korea, up to 300,000 of the troops presently committed to Korean operations could be redeployed to the mainland invasion coast for operations against Taiwan.

The major part of the Chinese Communist Air Force is based in Manchuria and North China. Elements are based south of the Yangtze, but redeployment even of these units would be necessary before the Communists could launch a large-scale air offensive. In the event of an armistice in Korea, a substantial part of the aircraft available to the Communists in China could be redeployed to South China with little difficulty.

Chinese Communist capabilities for an assault of Taiwan are reduced by their lack of experience in large-scale amphibious operations. Previous Chinese Communist amphibious experience has been limited to short over-water hauls and coastal movements. The Communists have few conventional landing craft and consequently would have to employ a heterogeneous assortment of vessels including junks. Loading and coordinating the movement of this fleet would present formidable problems. Air support for such operations would be hampered by the lack of Communist experience in air-naval-amphibious operations. Furthermore, disembarkation of troops and equipment would have to be accomplished without offshore naval support. Finally, the Communists would have to seize port facilities on Taiwan before a significant part of their heavy equipment could be off-loaded.

Provided that present U.S. policy with respect to Taiwan continues unchanged, and provided that U.S. naval and air forces are available to

* This subsection is an abstract of NIE-27/1, "Chinese Communist Capabilities and Intentions with Respect to Taiwan through 1952" (11 pp., 1 April 1952). This estimate remains valid in essential respects.

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defend Taiwan, Chinese Communist operations against Taiwan would almost certainly fail. If U.S. policy with respect to Taiwan should change and the U.S. did not participate in the defense of Taiwan, the Chinese Nationalist forces could not successfully defend Taiwan against a large-scale Communist operation.

Irrespective of developments in Korea, we believe that the Chinese Communists will not make either a limited surprise attack or a large-scale attack against Taiwan in the near future provided that present U.S. policy with respect to Taiwan continues.

The Communists may conduct reconnaissance, nuisance, or destruction raids (either by air or sea) against Nationalist-held offshore islands and may assault and capture some of these islands. However, we do not believe such actions will necessarily indicate an imminent invasion of Taiwan.

Over the longer term, we believe that the Chinese Communists will attempt to secure control over Taiwan by political means if possible; otherwise by military action when a favorable opportunity presents itself. So long as the relative military strength of the United States and the Communists in the Far East remains substantially unchanged, and so long as U.S. policy with respect to Taiwan remains unchanged, we believe the Chinese Communists will not hazard a military attack on Taiwan.

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FAR EAST

F. MAINLAND SOUTHEAST ASIA

(Indochina, Burma, Malaya, Thailand)

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Introduction

The security of the countries of mainland Southeast Asia is closely inter-related. Communist control of one mainland Southeast Asia country would jeopardize the security of the others. Communist domination of the whole area would make it extremely difficult to prevent Japan's eventual accommodation to Communism.

INDOCHINA *

Present Situation

The conflict in Indochina, now in its seventh year, is still a military stalemate between the Viet Minh and French Union forces. While there is fighting in all three of the Indochina states, the province of Tonkin in Vietnam is the area of critical activity. (See Maps, Figures III-F-1 and III-F-2, following page III-F-2.)

French-led forces include 190,000 French expeditionary troops (of which some 50,000 are Metropolitan French) plus attached Indochinese troops and the Vietnam National Army, numbering in all approximately 470,000. The Vietnam National Army, at present a force of about 60,000, is taking shape slowly. It will be several years before it can be built up, staffed and trained to the point where it might assume responsibility for Indochina's defense. On the opposing side, there are roughly 300,000 Viet Minh troops, regular and auxiliary. **

Viet Minh units have taken advantage of the summer rainy season, which limits military operations, to recruit and train replacements for casualties suffered during last winter's campaigns, and to resupply. The recent resumption of fighting, in which a heavy concentration of Viet Minh units has achieved at least temporary successes in the mountainous back country of Tonkin, suggests that the Viet Minh's combat efficiency is as high, if not higher, than it was last year. French forces, on the other hand, have built up through U.S. aid a significant logistic advantage, but their limited numbers and the nature of the warfare still render them incapable of taking decisive action against the Viet Minh and at the same time maintaining the security of areas now held.

The Vietnam government is provisional, and still in the formative stage. It is headed by Bao Dai, who as a quasi-monarchic chief of state

* This section is largely abstracted from NIE-35/2, "Probable Developments in Indochina through Mid-1953" (7 pp., 29 August 1952). This estimate remains valid in essential respects.

** These figures represent the total strength on both sides in all of Indochina. The strength of the opposing forces in the Tonkin area is shown on the map, Figure III-F-2.

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appoints the premier. There is no elective legislative body. Competent administrators are scarce, and most government agencies continue to rely heavily on French advisers.

Vietnam's international status is that of "independence within the French Union." This status has been partially defined in a series of French-Vietnamese agreements which confer on the French final authority in the conduct of military operations and a veto power over decisions affecting French economic interests. The guarantee of a special status for France has caused all other Asian states except Thailand to refrain from establishing diplomatic relations with Vietnam.

Nationalism is the principal motive force in Vietnamese politics. The immediate and all-important nationalist objective is freedom from French control. Both the Communist Viet Minh and the French-sponsored state of Vietnam are attempting to exploit this sentiment, the former by asserting that the French can be expelled only by armed force with the support of the Soviet Union and Communist China, the latter by asserting that cooperation with France in resisting an even worse brand of imperialism is the path to genuine national independence.

Since its formal alliance with the Communist world in February 1950, the Viet Minh may have lost some of its initial popularity, but during the same period it has strengthened its military machine and coercive apparatus. Meanwhile, the Vietnam government has grown, militarily and administratively, and has taken the initial steps in a reform program designed to undercut Viet Minh propaganda. These developments have not been sufficient, however, to dispel general apathy toward the Vietnam government. Suspicion of French intentions and low regard for the leaders of the Vietnam government is retarding the development of a dynamic and popular anti-Communist regime.

Estimate of Probable Developments *

The outlook in Indochina through mid-1953 is for continued stalemate, with both sides playing a waiting game. We believe the Chinese Communists will not invade Indochina, but will continue their present type of support to the Viet Minh. The French will continue their war effort, but will seek to conduct a "holding action," and to transfer a progressively larger part of the burdens of the war to the U.S. However, if present trends continue, the difficulties which France will face, in supporting military efforts in both Europe and Indochina and in maintaining its position in North Africa, will in the longer run weaken the French Union's ability and determination to continue resistance in Indochina.

* This estimate is an abstract of the conclusions of NIE-35/2, "Probable Developments in Indochina through Mid-1953" (7 pp., August 1952).

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Mainland Southeast Asia

BURMA *

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Present Situation

The government of Burma has gradually strengthened its position during the past year in the face of widespread Communist and Karen insurgency and a parliamentary opposition consisting of a pro-Communist coalition and the representatives of ethnic minorities. The Burma Socialist Party, which controls the government, is suspicious of both the Communist and Western worlds. While the government has become markedly less hostile toward the West, it nevertheless attempts to maintain amicable relations with both Moscow and Peiping.

Burmese leaders are showing increased determination to deal severely with the insurgents. Burma's military forces have been expanded and their operations intensified. Progress has been slow, however, and the rebels, even without significant Chinese Communist aid, still control large areas and menace much of the country. (See Map, Figure III-F-3, following page III-F-4.) The Karen rebels, an important ethnic minority, are reported to be receiving outside aid, and the Communists expect to receive some help from Peiping. Local cooperation between two or more of the insurgent groups has occurred, but there is no evidence that reported efforts to create an insurgent alliance have met with any success.

The presence of some 7,000 to 10,000 well-armed Chinese Nationalist troops in northeast Burma further complicates the military picture, and could serve as a pretext for Chinese Communist invasion. Efforts to obtain the removal of these Chinese Nationalist forces have so far been unsuccessful.

Rice production is the mainstay of the economy and prices obtained for exports are currently the highest on record; rice production and exports, however, are much below prewar levels. Burma's solvency has been maintained by a conservative fiscal policy, but deficit spending has lately been introduced to finance social reforms.

Estimate of Probable Developments

The government of Burma is in no immediate danger of being overthrown. The Burma Communist Party, the most dangerous of the insurgent groups, will probably decline somewhat in strength over the next year unless given increased technical and logistical aid by the Chinese Communists. The internal Communist threat will continue, however, and may again become critical over the longer run unless

* "Probable Developments in Burma through 1953" is the subject of the pending NIE-74, expected to be published in December 1952, to supersede the now outdated NIE-36/1.

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the Burmese Government greatly increases its political and military strength, and resolves many of the other problems facing it, such as the Karen minority and the Chinese Nationalist troops in Burma.

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Mainland Southeast Asia

MALAYA

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In Malaya, the principal dollar earning area of the British Commonwealth, the Communists have waged a campaign of guerrilla warfare and economic sabotage since 1948. An estimated 95 percent of the insurgents are recruited from Malaya's large Chinese population, rather than from the Malay or Indian communities.

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Rubber production for 1952 is expected to be lower than that of the previous year, when it was 32 percent of the world's total. Tin output is expected to be maintained at approximately the 1951 level, 34 percent of world production. Any drastic fall in rubber or tin prices would have substantial adverse effects in Malaya.

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Mainland Southeast Asia

THAILAND

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Thailand is the only country in Southeast Asia to have escaped widespread Communist violence, and its pro-Western orientation has been demonstrated by the dispatch of armed units to Korea. Thailand's apparent political stability, however, is threatened by a constant struggle for power between various factions of the dictatorial ruling military clique. An outbreak of destructive armed conflict is an ever-present possibility.

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The Communists in Thailand, largely Chinese, have recently intensified their activities and have had some success in extending their influence. It is probable, however, that Thailand will maintain a reasonable degree of internal security and continue oriented towards the West, even though not as enthusiastically as in the past.

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FAR EAST

I. PHILIPPINES

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During the past year and a half, aggressive military action directed by Defense Secretary Magsaysay, [REDACTED]

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[REDACTED] has enabled the Philippine Government to reduce the capabilities of the Communist-led Huks to a postwar low. Current Communist strategy appears to emphasize propaganda and infiltration tactics rather than militant action, pending the achievement of better organization and a larger following.

The strength of the Huk movement is focused in Central Luzon, where long-standing agrarian abuses cause unrest. Continued widespread corruption among government officials and the failure of the administration to take constructive economic and social action provide ready targets for Communist exploitation. There is no evidence of direct Chinese Communist aid to the Philippine Communist Party, and only a small proportion of the Philippine Chinese population is active in the Communist movement.

Both major political parties in the Philippines are strongly anti-Communist. Personalities rather than issues largely mark the difference between them. With a presidential election scheduled for November 1953, both parties are now devoting their efforts to political maneuvering rather than to the real problems of the country. President Quirino, the probable Liberal Party candidate for reelection in 1953, strongly supports American policies while attempting to build up his prestige as an Asian leader. Largely for political purposes, Jose Laurel, a leading presidential candidate of the Nacionalista Party (which now controls the Senate), has joined other opposition leaders in becoming increasingly critical of American policy as it affects the Philippines, while at the same time carefully denying that they are anti-American. There have been increasing indications that Defense Secretary Magsaysay might also become a presidential candidate.

The economy of the Philippines remains closely tied to that of the United States and is dependent upon the export at satisfactory prices of key agricultural products. Declining prices in recent months have reduced the level of business activity and the government's revenue. These factors have contributed to a demand that the trade agreement of 4 July 1946 with the United States be revised.

Until the government seriously undertakes social and economic reforms, of which there is no present prospect, containment and suppression of the Huk revolutionary threat will continue to depend upon the efficiency of the Philippine armed forces.

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J. INDONESIA

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Indonesia's coalition government faces two major problems: internal security and the necessity of increasing production of foodstuffs for domestic consumption and of raw materials for export. Four successive cabinets since December 1949 have made little progress in dealing with either problem.

West and Central Java are insecure principally because of the insurgent activities of the Darul Islam, a fanatic Moslem group. Areas of unrest also exist in the South Celebes, the South Moluccas and South Borneo. Although in West Java there is evidence of coordination among guerrilla groups, including Communists, there is no indication that a cohesive guerrilla coalition is developing. The full extent of Communist military activity is not known, but Communist forces are not believed to be large. On the political front, the Communist Party, in a reversal of earlier tactics, is supporting the government, although it is not represented in the cabinet. Communists largely dominate the Indonesian labor movement.

Two of Indonesia's principal exports are rubber and tin, which in 1951 amounted to 41 percent and 18 percent, respectively, of the world totals. Decreased world prices for these commodities in 1952 resulted in the impairment of Indonesia's favorable trade position. The country's continuing population increase highlights the importance of existing government programs to increase rice production.

Indonesia's gestures in support of the West have been few, reluctant, and relatively ineffective. For example, Indonesia signed the Japanese peace treaty but has not yet ratified it.

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On the other hand, Indonesia has made no significant commitment to the Soviet Bloc, and has adopted a policy of increasing vigilance over Chinese and Indonesian Communist activity in Indonesia. Communist China maintains an embassy and four consulates in the country; the Soviet Union has no diplomatic representatives there. In its relations with the Netherlands, Indonesia seeks the abrogation of agreements regulating relations between the two countries and demands the cession of Netherlands New Guinea.

On 17 October, the Army and the Defense Ministry forced the indefinite recess of the appointed parliament and obtained the president's promise of national elections "as soon as possible." Since this unusual military intervention, an uneasy balance appears to exist between civil and military authorities. Although efforts to deal with major problems will continue to be thwarted by political rivalries, some progress may be expected. Adherence to an "independent" foreign policy, with occasional indications of preference for the West, is expected to continue.

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K. HONG KONG AND MACAO

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Both the British colony of Hong Kong and the Portuguese colony of Macao have been economically useful to Communist China as sources of Western goods. Although this usefulness in their present status does not appear sufficient to insure the safety of either colony, the Peiping regime has as yet given no indication that it intends to seize them in the near future.

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Hong Kong and Macao depend on foreign trade for their economic prosperity.

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Both Hong Kong and Macao have suffered from a decline in trade with the Chinese Communists since mid-1951. (See Chart, Figure III-K-1, following this page.) This decline is attributable in part to the imposition of export controls, chiefly by Hong Kong, on shipment of strategic goods to China. Another contributing factor was a reduction in Chinese purchases, on their own initiative, in the Hong Kong and Macao markets. However, the trade depression is not sufficiently serious to endanger the stability of the Hong Kong and Macao Governments. Moreover, preliminary data indicate a revival of trade in the second half of 1952 with the re-entry of the Chinese Communists into these markets.

Hong Kong and particularly Macao have had unpleasant experiences with the Chinese Communists during 1952. After exchanges of fire between Portuguese African troops and Chinese forces on the Macao border in July 1952, the Communists closed the border and forced the Portuguese to apologize and pay reparations.

A Chinese Communist attack on either Hong Kong or Macao could be launched with little or no warning. There are 60,000 troops immediately available for such operations, with another 150,000 in nearby areas. Against these, Hong Kong has only 15,000 troops and Macao only 3,000.

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Although the Chinese Communists have the capability to seize Hong Kong and Macao, with significant assistance from internal subversive elements, it is improbable that the Chinese Communists will attempt to seize either colony in the near future.

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L. TIBET AND INDIAN BORDERS

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Tibet has come under effective Chinese Communist control. Traditionally governed by a Buddhist hierarchy under the Dalai Lama, Tibet had been virtually independent for forty years. With the establishment of the Peiping regime in 1949, the Chinese Communists proclaimed their intention of "liberating" Tibet. An advance into Tibet began in 1950, and the Dalai Lama fled from the capital, Lhasa. In May 1951, under Communist pressure, a Tibetan delegation to Peiping signed an agreement preparing for Chinese Communist control. The Dalai Lama was induced to return to Lhasa in August, 1951, and has since been used as a Chinese puppet.

By the end of 1951 the principal cities and settlements of Tibet were occupied by Communist troops. The trade routes and major passes from Tibet into India, Bhutan, Sikkim, Nepal and Kashmir also came under Chinese military control. The occupation force has been built up to an estimated 15,000 troops, most of them in southeastern Tibet. This force, living off the land, has caused a serious food shortage. Although the Tibetans are reported to be increasingly restive as a result of the food shortage, they are not capable of overthrowing the military government.

Control of Tibet facilitates the build-up of Chinese influence in the border area between Tibet and India. The border territories of Bhutan, Sikkim, Nepal and Kashmir, and parts of the Indian states of Assam, Uttar Pradesh and the Punjab, are very mountainous and thinly settled, and many of their boundaries have never been clearly defined. Historical Chinese claims to suzerainty can be and have been advanced to justify encroachment in undemarcated areas.

The governments of these border regions exercise only limited authority in the areas nominally under their control. In Nepal particularly, a weak interim government is confronted by both Communist and non-Communist opposition, and a recent fractionalization of political parties has made it unlikely that the holding of national elections can bring to power a group sufficiently strong to improve Nepal's security situation. Infiltration of Communist agents from Tibet into India's northern border area may be expected. There is no indication, however, that the Chinese Communists will undertake a large-scale military invasion of this area in the near future.

Economic development of Tibet is being pushed by the Communists, with emphasis on transport and communications. Road improvement, construction of airfields and establishment of a radio network have been reported. These facilities are needed by the Chinese Communists to insure their line of supply and to effect the integration of Tibet with China Proper. In view of the rudimentary economy of Tibet as the Communists found it, and the difficulty of access from China, the amount of construction is probably very limited at present.

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IV. SOUTH ASIA

(India, Pakistan, Kashmir, Afghanistan, Ceylon)

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Introduction*

The nations of South Asia are significant in the present world situation chiefly because of their aggregate size and vast population, their successful transition from colonial to independent status while maintaining friendly ties with the former colonial powers, and their role as suppliers of strategic and other materials to the Commonwealth, the U.S., and the free world at large. The governments of these countries are now fairly stable. However, the area is confronted, notably in the case of India, with serious economic problems and with developing Communist subversive pressures. Meanwhile, the Kashmir dispute between India and Pakistan continues to be an economic and political burden on both countries and is a threat to the peace.

* This introductory paragraph is based in part on SE-32, "Consequences of Communist Control over South Asia" (7 pp., 3 October 1952).

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A. INDIA

Present Situation

Nehru and the Congress Party emerged from the national elections of early 1952 with a weakened though still dominant position in Indian politics. Although the Congress Party retained a strong majority in the national parliament, it lost considerable ground to independents and leftists who capitalized on the general dissatisfaction over party corruption and the lack of visible economic progress. It actually failed to secure a majority in some of the state elections. The Congress Party is facing difficulty in retaining its hold over northern India, where there is factionalism within the party and where deposed princes and other groups, such as the Sikhs, demand special rights. A non-Congress government already controls the Patiala and East Punjab States Union. In the south Indian states of Madras, Travancore-Cochin and Hyderabad, the Congress Party faces strong opposition from Communist and other leftist forces.

The Communist Party of India, though still far from an immediate threat to the stability of the regime, has grown considerably in influence since early 1951. The 27 Communists in parliament (total membership: 497) have effectively used their opportunity for obstructionism and propaganda. There are indications that the Indian and Chinese Communists are making contact along the Himalayan frontier.

Although the Indian Government has exhibited a growing awareness of the Communist menace, has accepted U.S. economic aid, and has generally appeared more cordial toward the U.S. in the last year, Nehru has retained his basic policy of non-involvement in the East-West struggle and his anti-colonialist identification with the Arab-Asian bloc in the UN. India has meanwhile taken a strongly nationalistic position in the Kashmir dispute and in its efforts to gain control of the French and Portuguese enclaves on the subcontinent. It has also strongly supported the position of the South African Indian minority.

India faces grave economic problems. A chronic food deficit area, India had to import 4 million tons of grain in 1952, including 150,000 tons from Communist China. It will have to increase these imports if the expansion of food production fails to keep pace with the rapid growth of population or if serious crop failures such as those of 1951 recur. India's industrial and transport equipment is old and insufficient for current needs. India's economic problems have been complicated by the Kashmir dispute,* which has resulted in heavy military expenditures and in a disruption of the once-normal flow of Pakistani jute and cotton to Indian mills. India accepted a U.S. loan of \$190,000,000 in 1951 for food purchases, and \$50,000,000 in U.S. grant aid in 1952, in furtherance of its economic development program. It will require large-scale external financial assistance for 1953 to prevent economic deterioration.

* The Kashmir dispute is discussed in more detail in section IV-C, following.

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India maintains about 400,000 ground troops and 1,500,000 trained but unorganized reserves. These forces, which include one armored division and an armored brigade, are of generally good fighting quality but are hampered both by a shortage of fully qualified senior officers and by their dependence upon foreign sources for equipment heavier than small arms. They can maintain internal security and defend the country against such antagonists as Pakistan, but would require assistance to withstand aggression by a major power. Indian naval strength consists of one light cruiser, three destroyers, and 8,900 personnel. The Air Force of 17,000 men has only 475 pilots.

Estimate of Probable Developments

Nehru and the Congress Party are not likely to face any serious political threat over the next year or two. However, the cohesion and strength of the Congress Party are likely to decline somewhat under the impact of internal and external pressures. The influence of the Communist opposition is likely to grow unless the government succeeds in achieving some appreciable progress toward economic betterment.

During the period of this estimate, India will probably continue to desire U.S. help and friendship but will probably hold to its policy of non-involvement in the East-West struggle and remain critical of a number of Western policies and actions.

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LATIN AMERICA

H. PANAMA

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Panama's new President, Jose A. Remon, at present heads a strong and firmly pro-United States government. Along with most Panamanians, he realizes that close relations with the United States are inescapable, not only because of the American interest in the Canal and occupation of the Canal Zone, but also because of Panama's economic dependence on the United States. Remon's announced plan to ask the United States for a revision of the Panama Canal Treaty stems from his belief that Panama should receive a larger share of benefits from the Canal; he is not expected to challenge existing American rights in the Zone.

Remon's overwhelming victory in last May's elections left the opposition alliance of three political parties greatly weakened. The opposition still controls most of the leading newspapers, however, and is influential among politically important student groups. Some members of the opposition have in the past been willing to make common cause with the Communist People's Party which, though it has only about 400 members and a mere 40 to 50 militants, is active in various front groups and has infiltrated the educational system and some labor unions. The Communists, however, are unlikely to become a threat if they remain isolated from other opposition groups.

Remon thus begins his term in a strong position. At least 40 of the 53 deputies in the National Assembly are behind him. If the first months of his administration are successful, he will increase his already strong popular following.

On the other hand, the Remon regime must deal with Panama's serious economic difficulties, stemming basically from an over-dependence on income derived from the Panama Canal and the under-development of the country's potentially valuable agricultural resources. A severe depression has prevailed since 1948, unemployment has become increasingly critical, and the government itself is near bankruptcy. Remon, with the assistance of American technicians, plans a constructive attack on these problems.

The 2,500-strong Panamanian National Police is the country's only armed force. It is a relatively effective, well-trained and disciplined force for the maintenance of internal order. Remon, who rose to power as Commandant of Police, retains the complete loyalty of the force.

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SOUTH ASIA

B. PAKISTAN

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Present Situation

Pakistan has a fairly strong and stable government controlled by the conservative Moslem League. There is no effective opposition party. Since late 1951, however, some internal dissension between orthodox Islamic and secular forces has developed within the government party. This will probably come to a head in November, when a draft constitution, which will determine whether Pakistan will be an Islamic or a secular state, is to be considered.

Development of a significant Communist movement has been effectively checked by governmental suppression, but the recent release of several Communist leaders from jail may enable the party again to make progress.

Pakistan's foreign policy outlook is dominated by the Kashmir dispute.* This dispute is a source of friction between Pakistan and the West and of domestic political embarrassment to the government. It also constitutes a continuing financial drain. Although Pakistan has manifested some interest in participating in Middle East defense and at one time hinted that it might send troops to Korea, it has been unwilling to make such commitments with the Kashmir issue unsettled. Pakistani bitterness over Western unwillingness to back it on Kashmir has recently led the government to draw closer to the Arab-Asian bloc and undoubtedly played a large part in its decision to lead the fight for inscription of the Tunisian issue on the UN General Assembly agenda.

Pakistan depends primarily on the West for trade as well as for funds for its economic development. A serious slump in the prices of jute and cotton in 1952 sharply reduced the country's income and led to excessive drains of Pakistan foreign currency reserves. An acute shortage of food-grains has also necessitated the importation of over 500,000 tons of wheat, including 150,000 tons on a loan from the U.S. and 300,000 tons from the USSR in exchange for jute and cotton. This barter deal with the USSR and heavy purchases of cotton by Communist China will probably not reverse the primarily Western orientation of Pakistan's trade.

Pakistan's weakened financial position hinders progress in its economic development program. It received \$10,000,000 in grant aid from the U.S. in 1952.

Pakistan's armed forces include an army of 206,000 men, supported by about 85,000 other organized troops. The air force totals 10,100, of whom 144 are pilots. The navy of 4,800 men has three destroyers and some smaller vessels. These forces can maintain internal security

* The Kashmir dispute is discussed in more detail in section IV-C, following.

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and provide strong, though probably unsuccessful, opposition to India. They are almost completely dependent upon foreign sources for supplies of equipment and ammunition.

Estimate of Probable Developments

The situation in Pakistan is likely to remain relatively unchanged over the next year or two. Although divisions within the Moslem League will probably become more pronounced, an open split is unlikely. Externally, the Pakistan Government is likely to remain predominantly pro-Western in its political and economic orientation but resentful of the West's failure to back it in Kashmir and critical of the West's record on colonial questions.

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SOUTH ASIA

C. THE KASHMIR DISPUTE

(See Map, Figure IV-C-1, following this page)

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The dispute between India and Pakistan over control of strategically located Kashmir has been before the UN Security Council since January 1948. Repeated UN efforts to secure agreement on how to prepare for the plebiscite agreed to by both parties have failed, most recently on the question of the number of troops to remain in Kashmir during the proposed plebiscite. (At present, there are about 62,000 Indian troops and about 19,000 Pakistanis in Kashmir.) Currently both sides are awaiting Security Council disposition of the report of UN Representative Frank Graham.

Within Kashmir the political situation remains obscure. Sheikh Abdullah, who was responsible for Kashmir's accession to India at the very start of the dispute in 1947, has steadily consolidated his position by instituting a land reform program and by resorting to authoritarian methods,

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It is unclear, however, whether he has successfully eradicated the basic pro-Pakistani sentiments of the Moslem majority in the state. Abdullah, whose entourage includes a number of suspected Communists, has meanwhile achieved considerable autonomy for Kashmir, a point of some concern to India. Chinese Communist patrols occasionally penetrate northern areas of Kashmir which Communist China has claimed as its own territory.

There is no present prospect for an early break of the Kashmir deadlock. The basic obstacle appears to be India's continuing reluctance to risk the results of an impartial plebiscite. Although agitation in Pakistan for military action to seize Kashmir may develop from time to time, we continue to believe that the Pakistan Government is unlikely to accept the grave military risks such a course would entail.* The Abdullah government's desire for greater independence, which is being stimulated by the Communists, will probably cause further friction with India, but Abdullah is unlikely to break with the government he depends on for military and economic support.

* The possibility of a reopening of hostilities over Kashmir and the probable military consequences thereof were analyzed in NIE-41, "Probable Developments in the Kashmir Dispute to the End of 1951" (7 pp., 14 September 1951).

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SOUTH ASIA

D. AFGHANISTAN

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The Afghan Government is controlled by a small autocratic group, headed by the King,

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There is no known Afghan Communist Party, but Communist-inspired subversive activities are believed to be growing.

Afghan foreign policy reflects the fact that it is remote from Western assistance and utterly incapable of resisting, with its weak army of 66,000, any serious Soviet attack. Afghanistan has accepted U.S. aid missions (it now has an \$800,000 U.S. grant for 1953), but has avoided political involvement in the East-West conflict, in general following the lead of the Arab-Asian bloc. Afghanistan's vulnerability to Soviet pressure and the possibility that such pressure may increase were indicated by the delivery of a sharp Soviet note in August protesting plans to permit a French firm to drill for oil in northern Afghanistan. As a result, the Afghans are now hesitant about implementing these plans.

Relations with Pakistan have been embittered by an intensive Afghan campaign for the formation of Pushtoonistan, a proposed autonomous territory for Pathan tribes on the Pakistani side of the Pakistani-Afghan frontier. The minimum and maximum claims for Pushtoonistan are shown on the map, Figure IV-C-1, preceding this page.

Afghanistan depends on imports for products other than food and clothing. Afghanistan depends upon Pakistan for an outlet to the sea, and the latter has sometimes retaliated against Pushtoonistan propaganda by cutting off the regular flow of supplies, thus forcing Afghanistan to increase its trade with the USSR.

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SOUTH ASIA

E. CEYLON

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Ceylon is a member of the Commonwealth and is controlled by the pro-Western United National Party, with leftist opposition elements like the Trotskyite and Stalinist Communist groups now occupying a weak position. Nevertheless, Ceylon has followed a neutral course in the East-West conflict and has sometimes acted contrary to Western interests because of its special foreign trade problems.

Forced to import more than half of its food and dependent on sales of rubber for considerable of the foreign exchange needed to buy it, Ceylon shipped 20,000 tons of rubber to Communist China during the first seven months of 1952 and also turned to Peiping recently for an emergency shipment of 80,000 tons of rice. Although Ceylon does not wish to jeopardize its relations with the West, it is faced with a \$20 million deficit in foreign exchange built up over the first seven months of this year, and is currently considering an even more comprehensive deal with the Chinese Communists under which it would ship up to 50,000 tons of rubber to the Chinese and receive 200,000 tons of rice annually.

Ceylon has negligible military forces of its own and depends on the Commonwealth for protection against attack. It has granted the British some limited base rights in Ceylon.

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V. MIDDLE EAST AND AFRICA

A. IRAN

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Present Situation

Recent events have produced far-reaching changes in the traditional political forces in Iran. The National Front has seized the political initiative from the Shah and the formerly dominant landowning class. Premier Mossadeq has become the dominant political figure in Iran, but the coalition of urban nationalists and religious zealots which he heads is united primarily by a common desire to rid the country of foreign influence. Western access to Iranian oil and Iran's ultimate role in the East-West conflict will depend in large measure on Mossadeq's handling of the following serious problems:

a. *The Oil Dispute.* The oil dispute remains the focal point of political activity in Iran. Mossadeq rode to power on the issue of nationalization of oil and his present political strength derives largely from his continued defiance of the UK. The political forces which Mossadeq has himself encouraged require him to insist upon greater concessions than the British have given any indication of accepting. Nevertheless, Mossadeq must eventually find some means of selling Iranian oil if he is to retain popular support and avoid government bankruptcy.

b. *Government's Fiscal Position.* Loss of oil revenues has seriously affected the financial position of the government. However, the current rate of government expenditure can probably be maintained for some months by further internal borrowing and currency expansion. Prolonged absence of oil revenues, however, would eventually necessitate substantial budgetary cuts. Such cuts would weaken Mossadeq's political strength, reduce the effectiveness of the security forces, undermine the authority of the central government, and create favorable opportunities for the expansion of Communist influence.

c. *Economic Deterioration.* Although loss of oil revenues has not seriously affected the primarily agricultural Iranian economy, the urban sectors of the economy have suffered from rising prices, curtailment of imports and increased unemployment. Shortage of foreign exchange is forcing the government to resort to barter agreements with the Soviet Bloc countries as well as with Western nations. The Iranian government's economic development program is at a virtual standstill.

d. *Control over the National Front.* A major threat to Mossadeq's continued control over the heterogeneous National Front arises from the activities of Mullah Kashani, ambitious Moslem leader. Kashani's extreme intransigence on the oil issue and his uncompromising demands for the termination of all foreign influence in Iran severely limit Mossadeq's freedom of action. Agitation by Kashani's followers among the peasants for quick and sweeping agrarian reform is contributing to unrest throughout the country and playing into the hands of the Communists.

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e. *Security Forces.* The Iranian armed forces number about 156,000 and are almost completely dependent upon foreign sources for equipment. Their continued capability for maintaining internal security will depend upon the extent to which the government gives them effective direction and is able to pay Army salaries. Mossadeq is having some success in changing the allegiance of the security forces from the throne to the national government. The resulting changes in Army leadership and the effect of recent events have created some confusion and insecurity among some high ranking Army leaders, but morale in general is believed to be satisfactory. Communist influence in the security forces appears to be slight.

f. *The Tudeh Party.* The Tudeh (Communist) Party with an estimated membership of approximately 15,000 is at present almost certainly incapable by itself of overthrowing the government by force or subversion. However, it has become stronger in recent months and has demonstrated effective organization. Its agitation for social and economic reforms is contributing to unrest and its bitter anti-Western stand is adding to Mossadeq's difficulty in settling the oil dispute. However, the Party still lacks a legal status as well as either the power in the Majlis or control of the key Cabinet positions which would be necessary to take over the government by constitutional means.

Estimate of the Situation *

We believe that, barring Mossadeq's death from natural causes or by assassination, his National Front regime will probably remain in power for at least six months. Financial or economic factors are not in themselves likely to cause the collapse of the Mossadeq regime, even though oil revenues are not likely to be restored in that period. Mossadeq has the authority and the resources, and probably has the will and determination, to prevent a significant deterioration in the effectiveness of the security forces and to maintain the authority of the central government throughout the country. However, Mossadeq will face growing demands for social and economic reform. In his efforts to satisfy these demands in the face of opposition by conservative elements — particularly the landlords — Mossadeq will probably resort to increasingly authoritarian measures. Even if Mossadeq were removed from the political scene, we do not believe that the Tudeh Party would come to power during the next six months.

* This estimate is limited to a period of six months in view of the prospective publication, on or about 8 November, of NIE-75, "Probable Developments in Iran Through 1953."

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MIDDLE EAST AND AFRICA

B. THE ARAB STATES

(Egypt and the Sudan, Syria, Lebanon, Iraq, Jordan, Saudi Arabia) *

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EGYPT AND THE SUDAN

Present Situation

Since the Egyptian coup of 23 July, the army group around General Nagib has steadily consolidated its control. On 7 September General Nagib personally assumed the premiership, and the army's inner circle openly took over direction of the government. On 14 October the three-man Regency Council was reduced to one. The present provisional Regent, Prince Moneim, can be expected to be completely docile. Rumors persist that Egypt may soon be declared a republic.

The inner circle, which includes General Nagib and eight other officers, is apparently the supreme policy-making body. These men were almost unknown before the coup and had no experience of civil government. There is no clear evidence to date of their political tendencies. Some members at least are believed to be associated with the extreme nationalistic Moslem Brotherhood. Spokesmen for the army group, however, have indicated a desire to align Egypt with the West, particularly the U.S., and to follow a moderate course. The record of the government so far has been reformist but moderate.

The regime's anti-corruption and land reform programs have received widespread support, though they have alienated traditionally influential elements in the country. There has been delay in achieving tangible results from the much-publicized land reform, and government efforts at price control are irritating to the merchant class. Fearing popular

* Libya is treated in Section V-F, North Africa.

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dissatisfaction with its lack of immediate positive achievements, the regime has tried to distract public attention by threatening to indict the former King for treason.

The Communist Party is outlawed in Egypt, and since assuming power the military junta has suppressed Communist activities. Nagib's determined stand against the powerful Wafd Party, and the arrest of many leading political figures, evidence the army's intent to neutralize all potential opposition.

Egypt's foreign trade is principally based on cotton. Reduced sales in world markets and years of speculation under Farouk's regime have severely depressed the industry. Egypt has recently been bartering cotton for Russian wheat. The government also faces difficult financial problems.

The army regime has indicated considerable interest in obtaining foreign capital to develop Egyptian industries. This policy contrasts with that of previous governments which restricted foreign investments. One of the first acts of the new regime was to liberalize the 1947 Company Law to permit 51 percent foreign ownership of Egyptian concerns.

The Egyptian armed forces total approximately 86,000, of which 65,000 are in the army, and there are an additional 6,500 in the Royal Frontier Corps. Both organizations are weak in materiel and combat efficiency. The air force of 2,800, with 285 aircraft, has a low operational efficiency.

The Royal Egyptian Police Force is organized as a military unit and has approximately 100,000 men. The army and the police have worked closely together since martial law was declared on 26 January 1952. A number of senior police officers, however, were purged after the 23 July coup, and the army group can be expected to insure that the police force remains subordinate to the military. The Nagib government has control of the security forces and can probably put down any counter-coup.

Since the coup, a prime concern of the army inner circle has been to secure new equipment for the armed forces.

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Estimate of Probable Developments

General Nagib's government will probably be able to cope with any likely attempt to overthrow it if it can maintain its internal harmony

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and make satisfactory progress toward resolutions of Egypt's domestic problems. It has already won and will probably keep a large popular following. The government will probably be weakest on economic and financial problems, which are bound to be very difficult during the next few years. The government can be expected to continue to bargain for Western military and economic aid by offering to negotiate outstanding issues and to cooperate in defense of the area. The Egyptian example will have an important influence upon the other Arab states.

The Sudan

The Sudan has long been a major stumbling block to all Anglo-Egyptian negotiations. Administered as a condominium by Great Britain and Egypt since 1899, it is scheduled to move closer to self-government in early November 1952 when the British-sponsored constitution is to become effective. In 1951 Egypt denounced the condominium agreement and proclaimed the unity of Egypt and the Sudan, and since then has refused to recognize British authority or to negotiate with Great Britain except on its own terms. Ignoring Egypt's claims, Great Britain has proceeded alone with preparations for self-government under a British Governor-General.

Great Britain is anxious to obtain Egyptian cooperation in implementing the constitution, and General Nagib, in contrast to previous Egyptian prime ministers, has indicated a willingness to discuss the future of the Sudan with the British. There is no clear indication of what final position Nagib's government will take. However, there are some indications that the Nagib régime may be willing to accept self-determination in the Sudan, which might afford the basis for a settlement.

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MIDDLE EAST AND AFRICA

Arab States

SYRIA

Lieutenant Colonel Shishakli's military government has controlled Syria since it came to power by means of a coup d'etat in November 1951. The government appears to have general popular approval. However, it has failed in its efforts to get the backing of civilian politicians, and some opposition has developed in the Army and in political circles. The Syrian army does not appear to be eager to rule the country, but has as yet found no civilian political force strong enough to take its place and protect the army's interests.

In spite of considerable "neutralist" sentiment in Syria, Shishakli has shown a generally pro-West orientation. This has been accompanied by periodic demands for economic and military aid, but Shishakli has thus far held out against committing himself to MDAP aid and has definitely refused U.S. offers of technical assistance.

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One of Shishakli's chief concerns has been his relations with neighboring countries. He has taken a strong line against Israel, and there are periodic incidents between Syria and Israel in the Lake Hule border region. Shishakli has made a special effort to strengthen his ties with the other members of the Arab League and has particularly good relations with Saudi Arabia and Egypt. Relations with Iraq, however, are not good, because he is opposed to the Iraqi-favored union of Syria, Jordan and Iraq under the Iraqi Crown.

Communism was made illegal in 1947, but there are still reported to be some 10,000 Communists working covertly.

Syria's army consists of approximately 30,000 men; its equipment is mainly obsolescent. It has the capability nevertheless to maintain internal security.

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MIDDLE EAST AND AFRICA

Arab States

LEBANON

The forced resignation this September of Lebanon's president and virtual dictator, Bishara el-Khoury, has removed an outstanding symbol of corruption, nepotism, and indifference to the public interest, but it is still unclear how much of a change in the pattern of government will ensue. The new president, Camille Chamoun, was drawn from the old circle of politicians who have dominated Lebanon since it won independence, and the reformist element which forced Khoury out is but a small minority in parliament. Meanwhile, political change continues to be inhibited by fear of disturbing the balance between Christians and Moslems, by the local and sectarian loyalties of most politicians, and by consciousness of Lebanon's weakness vis-a-vis Israel and Syria.

Although Communism is illegal, there is a small active underground.

Lebanon's foreign policy is ambivalent. Lebanon is drawn toward the West by long-standing cultural, religious and economic ties and by the fear among its Christians of being swallowed up in a Moslem "Greater Syria." At the same time it is strongly conscious of being Arab and fearful of being considered out of step with its Moslem Arab neighbors. As a result, Lebanon has frequently supported the West in the UN but has also tended to follow the majority in the Arab League.

Lebanon's 8,000-man army is valueless except for internal security purposes.

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MIDDLE EAST AND AFRICA

Arab States

IRAQ

Political power in Iraq has remained in the hands of a small circle of old-line politicians generally responsive to the Regent, Abdul Ilah, who is scheduled to step down when young King Feisal comes of age in May 1953. Although nationalist, anti-colonialist sentiment pervades all politically-conscious elements, the more xenophobic political groups are still a minority. The small Communist Party has long been subject to vigorous police action as an illegal organization, but the growing Tudeh strength in neighboring Iran and the periodic unrest among Iraq's sizeable Kurdish minority has encouraged the movement, and Communist strength is growing.

Iraq's Western-oriented leaders have been cautious regarding the problem of the British, who have airbase rights at Habbaniya and Shaiba under a twenty-five-year Treaty of Alliance due to expire in 1957. British political and economic influence remains large. Iraq has so far exerted only slight pressure for revision of the treaty and, in contrast to Iran's decision to nationalize oil, has this year renewed its contract with the Iraq Petroleum Company on terms which will about double its previous oil revenues.

Iraq is semi-isolated in Arab politics because of long-standing rivalries with Saudi Arabia and Egypt and because of Jordanian and Syrian resentment of Iraqi desires for union of the three countries under King Feisal.

Iraq's prospects for economic development are good in view of the availability of much additional irrigable land and of large oil revenues for development purposes.

Iraq's armed forces, totalling some 60,000 men and largely equipped with British arms, are only capable of maintaining internal security.

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MIDDLE EAST AND AFRICA

Arab States

JORDAN

Jordan has changed monarchs twice in the last two years: King Abdullah was assassinated in July 1951 by an opponent of his Israeli policy, and his demented successor, Talal, was removed from the throne this year in favor of the latter's young son Hussein. Nevertheless, the internal political situation remains fairly stable and Jordan retains its special tie with the British, on whose subsidies it relies for support of the Arab Legion and for much of its civil government budget. Prime Minister Abul Huda has generally improved his political position despite some trouble coping with Palestinian Arab politicians of West Jordan, who have in some cases joined forces with Palestinian Communists to create disturbances.

Since Abdullah's death, Jordan has abandoned his efforts at a settlement with Israel and has generally improved its relations with the other Arab states.

The Jordanian Arab Legion, with a strength of 16,000 men, is well-trained and well-equipped.

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MIDDLE EAST AND AFRICA

Arab States

SAUDI ARABIA

Although King Ibn Saud, now in his seventies, has aged noticeably in the last year or two, and has taken some steps to groom Crown Prince Saud to succeed to the throne on his death, he remains an absolute monarch in firm control of the Saudi state. There is a possibility that palace intrigue may increase as the King's faculties decline, but there is no present indication that the King will lose control or that the succession will be contested.

Ibn Saud has continued on good terms with the U.S., which maintains an Air Force base at Dhahran,

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Saudi Arabia has taken pains to establish good relations with all the Arab states except Iraq. It has generally sided with Egypt in Arab League councils.

Saudi Arabia has a 12,000-man army and a tribal militia of 85,000.

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MIDDLE EAST AND AFRICA

D. TURKEY

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Present Situation

Turkey has the most stable government and the most powerful military force in the Middle East and is firmly committed to a pro-Western, anti-Soviet position. Both the incumbent Democrat Party and the opposition Popular Republican Party favor a foreign policy of vigorous opposition to the USSR, active participation in Western defense preparations, and support for the UN. The Turkish security forces have diligently suppressed what little pro-Communist sentiment has appeared.

Turkey still has a long way to go in the direction of economic development, in part because of the heavy burden of maintaining a large military establishment, which accounts for about 35 percent of the budget. MSA aid has made a vital contribution to the military budget and has assisted materially in development of agricultural resources and in improvement of Turkey's weak communications system. Establishment of a strong economy continues to be hindered, however, by lack of trained personnel, the failure to create a favorable climate for foreign private investment, and Turkish reluctance to attack basic fiscal and economic problems. Turkey has used up nearly all of its gold reserve, and its balance of payment position is serious.

Turkey's military establishment is comprised of a 350,000-man army; a small navy composed mainly of destroyers, submarines, and mine-sweepers; and a 20,000-man air force which has 759 aircraft, about half of them combat types. Although modernization and standardization of the Turkish Army's equipment and procedures is still incomplete, it has benefited greatly from continuing U.S. aid and advice and is estimated to be capable of carrying out effective delaying action against a Soviet invasion or invasions. Turkey's military assets include a number of new airports which are being constructed with U.S. aid and are capable of supporting allied long-range bombing operations as well as ground support missions by Turkey's own air force.

Estimate of Probable Developments

Turkey will almost certainly remain one of the staunchest allies of the U.S. and the other NATO powers. However, it has exhibited a strong desire to be accepted as an equal partner and will probably continue to voice strong objections to being placed under British or French command in any Middle East regional defense organization. taken an increasing interest in promoting Arab a proposed Middle East Defense Organization (MEDO),

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E. MIDDLE EAST OIL

(See Map, Figure V-E-1, following this page.)

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The economic importance of the Middle East to the non-Communist world is largely the consequence of Middle East oil. In 1950-51 Western Europe imported seventy percent of its petroleum from the Middle East.* The Middle East has more than fifty percent of the world's proved oil reserves, while oil reserves in other parts of the world are being rapidly depleted. Thus, Middle East production in 1951 was 17 percent of world production, far less than the proportion of reserves located in the Middle East.

The loss of Iran's production during 1951 was largely compensated for by an unprecedented increase in the output in Iraq, Kuwait, Qatar and Saudi Arabia. The principal loss was due to the immobilization of the giant Abadan refinery. Though a remarkably successful adjustment has been made to the stoppage of Iranian oil and oil products, the danger that other oil-producing countries may follow the Iranian example threatens all Western oil operations in the area. For the moment, however, other Western oil concessions in the Middle East seem secure.

* This subject is considered in greater detail in NIE-14, "The Importance of Iranian and Middle East Oil to Western Europe under Peacetime Conditions" (8 pp., 8 January 1951).

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MIDDLE EAST AND AFRICA

F. NORTH AFRICA

(Including Libya)

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FRENCH NORTH AFRICA *

Present Situation

Chiefly because of its location along the southern littoral of the Mediterranean and its extensive military base network, North Africa is of major strategic importance to France, the U.S. and other NATO powers.

The chief problem in the area is the increasing instability created by growing local nationalism in French North Africa, especially in Tunisia and Morocco.

Moroccan and Tunisian nationalists are persistently seeking greater autonomy with independence as the ultimate goal. France, which maintains protectorates over these two countries, has responded with varying degrees of political repression, and with reform proposals considered insufficient by the nationalists; its announced intent is to pave the way for eventual self-government. Despite recent disturbances, French control is assured by the presence of more than 130,000 French troops.

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Nationalist disturbances during 1952 have been directed largely toward winning sympathetic attention from a world audience. Within the past two years the nationalists have expanded their contacts with the outside world, particularly in the Near East and South Asia. In the current UN session, 13 states have joined in a request that the United Nations discuss French policies and practices in the North African protectorates.

Although an Algerian nationalist movement exists, it is neither a strong nor a unifying force, and its strength is vitiated by internal struggles for power as well as by the successful French efforts to disrupt it. Since Algeria politically is part of Metropolitan France, and since the natives have no political institutions around which to rally, the basic response to nationalism is limited in comparison with Morocco and Tunisia.

* This section is based on NIE-69, "Probable Developments in North Africa" (9 pp., 12 September 1952, and supplement, 8 pp., 12 September 1952).

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There is little joint action between the three nationalist movements

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Only in Algeria is there measurable, if limited, nationalist cooperation with the Communists. The possibility always exists that the Communist parties may in the future succeed in their efforts to penetrate and direct the nationalist organizations.

The backward economy of French North Africa is essentially agricultural; some strategic minerals are found in Morocco. Since the end of World War II, with ECA assistance, substantial progress has been made in the modernization of agricultural methods, and in expanding irrigation. Experimental projects have introduced cotton, sugar beet, rice and peanut culture. Essential food imports are sugar and tea. The net balance of trade is unfavorable.

Estimate of Probable Developments *

French reforms and security capabilities probably will forestall the development of any serious threat to French control over Morocco and Tunisia for the next several years. However, we believe that such concessions by the French will not be sufficiently timely or comprehensive to satisfy the nationalists. The latter will almost certainly increase their demands for complete independence and might, if they fail to achieve their objectives, turn to the Communists for support. So long as French military capabilities are not seriously reduced, we believe that the nationalists, acting alone, will not be able to oust the French by force. Nevertheless, increasing native resistance to French control will probably — over a period of years — create a serious strain on French resources and limit the strategic usefulness of French North Africa to the West. We estimate that eventually France will either have to yield independence, contenting itself with some form of close military and economic ties, or else resort to increasingly costly military repression.

* This estimate is an abstract of the conclusions to NIE-69, "Probable Developments in North Africa" (9 pp., 12 September 1952, and supplement, 8 pp., 12 September 1952).

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MIDDLE EAST AND AFRICA

North Africa

LIBYA

Libya, which gained independent status in December 1951, has only begun to face the problems of self-government. Internally, the development of an effective state is handicapped by rivalry between Cyrenaica, the old domain of King Seyyed Idriss, and the more populous province of Tripolitania, by the lack of experienced Libyan administrators, and by the political immaturity of the people. Libya has not yet ratified formal arrangements with the UK and the U.S., the chief sponsors of Libyan independence

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Libya has not joined the Arab League but there are indications that such a move may soon take place.

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MIDDLE EAST AND AFRICA

G. UNION OF SOUTH AFRICA

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South Africa's fundamental problems arise primarily from the conflicting aspirations and outlook of the Union's heterogeneous population elements. There is a basic division between the dominant white minority of 2.6 million and the ten million native Africans, Indians and mixed breeds. In addition the whites themselves are divided into two hostile political groups, the Nationalists, predominantly Dutch-descent Afrikaners, and the Opposition, mainly of British descent. During the four-year tenure of the Afrikaner Nationalist government of Dr. Malan, these two conflicts have become acute.

The issue which has inflamed relations between the Nationalists and the Opposition has arisen over the government's efforts to perpetuate itself in power by legislation removing from the common electoral rolls the mixed-breed voters, who regularly support the principal Opposition party. The Supreme Court declared this legislation invalid. The Government then passed new legislation establishing Parliament itself as the highest "judicial" body empowered to pass on the validity of its own acts. The Supreme Court will almost certainly rule in the near future that the second act is also invalid. The Government will probably defy this ruling and proceed to transfer the mixed-breed voters, unless deterred by the fear that this course might provoke civil war by elements of the Opposition.

A longer range threat to stability is the growing hostility of non-whites toward whites, which has been sharply stimulated by the severe repressive actions of the Malan government. The whites now are being challenged by a non-white passive resistance campaign in which both Native and Indian organizations are for the first time cooperating. This campaign is almost certainly an early step in a program to overthrow white supremacy.

The Union's racial policy has been severely criticised, especially by the Arab-Asian bloc in the UN. The Union has warned that a UN investigation would mean its withdrawal from the United Nations. The General Assembly, at the current session, has voted in favor of an Arab-Asian bloc motion to discuss the issue.

South Africa's armed forces are at present undermanned, poorly trained, and inadequately equipped, though the South African military potential, as demonstrated in the last two wars, is not inconsiderable. Under present conditions South Africa could probably not contribute before 1957 the one armored division promised to the UK for Middle East defense within three months after the outbreak of war. If war should break out now, South Africa could not provide the division in less than one year, even with prompt, substantial outside military aid.

The strategic economic importance of the Union of South Africa arises primarily from its large-scale production of chromite, manganese, and asbestos. From the Union come about one-quarter of the

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West's supply of chromite (including practically all chemical-grade chromite ore), one-quarter of total Western manganese supply, and the entire Western supply of the strategic grades of amosite asbestos. The Union is expected to become an important source of uranium.

Estimate of Probable Developments *

Next year's general election will probably return the Nationalists to power.

Nationalist and Opposition leaders will endeavor to avert civil war, but because they intend to press their positions to the limit, short of such a conflict, and because they may miscalculate their ability to control their followers in inflammable situations, the possibility of civil war cannot be excluded.

Over the long run the repressive racial policy of the whites will almost certainly lead to rebellion of the non-white population. Communist influence, presently small, will probably play an increasing part in stimulating unrest.

Racial tensions in South Africa will almost certainly have an increasingly adverse effect on race relations elsewhere in Africa and on the relations of India and the rest of Asia with the West. If the UN intensifies its criticisms of the Union's racial policy, the Union may carry out its threat to withdraw from the UN.

The tensions in South Africa are unlikely for the next several years to interfere seriously with the export of strategic materials, but they may limit the Union's ability to dispatch forces outside the country in event of war. In the longer run, when rising racial tensions erupt into widespread disorders, the outflow of strategic materials will be hampered or even halted.

* This estimate is an abstract of NIE-72, "Probable Developments in the Union of South Africa" (18 pp., 20 October 1952).

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MIDDLE EAST AND AFRICA

H. STRATEGIC FACILITIES AND RESOURCES OF AFRICA *

(See Map, Figure V-H-1, following this page.)

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From a military standpoint, Africa lies athwart U.S. communication lines with the Near, Middle and Far East. A chain of airfields adequate for transport and ferrying operations spans Africa from West to East — Roberts Field in Liberia, Kano in Nigeria and Khartoum in the Sudan. Transcontinental ground communications pose a serious problem. Good natural harbors are scarce — Dakar, Freetown, Cape Town, Durban, Lourenco Marques — but artificial ports are being developed and expanded on both coasts.

North Africa occupies a position of particular strategic value to the U.S. and NATO because of its location along the southern littoral of the Mediterranean and its military base network. The U.S. has completed two strategic air bases in Morocco, a third is nearing completion and two more are under construction. Libya is the site of two large air-bases, one operated by the U.S. and the other by the UK. While North African port facilities are good — the French maintain four naval bases there — the internal transport network is adequate only for present peacetime needs.

The economic importance of Africa to the U.S. lies in its strategic materials, particularly the minerals required for Western defense. The mineral producing area is a narrow belt one thousand miles in length, stretching through central Africa from the Belgian Congo through the Rhodesias to the Union of South Africa.

Within this belt are important sources of asbestos, chromite, cobalt, copper, corundum, diamonds, lead, manganese, tantalum, uranium, vanadium and zinc. The increased export of many of these minerals is curtailed because of low rail capacity to the seaports. Other important deposits are as follows: cobalt, lead, manganese and zinc in French North Africa; columbite, chromite, diamonds, manganese and tin in British West Africa; kyanite in Kenya and mica and graphite in Madagascar.

The main strategic agricultural products are the palm oils of the Gulf of Guinea area in Equatorial Africa; and the sisal production in British East Africa.

* This section has been prepared by CIA. As to economic resources, there is in preparation a National Intelligence Estimate dealing with the likelihood and consequences of loss of strategic materials in Africa.

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VI. EUROPE

A. PROBABLE SOVIET BLOC COURSES OF ACTION
IN WESTERN EUROPE THROUGH MID-1953 *

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In Western Europe the Kremlin will attempt to prevent or delay Western integration and rearmament by playing upon anti-Americanism and upon national rivalries and fears, particularly upon French fear of a revived West Germany. The Communists will probably attempt to effect alliances with other groups in Western Europe, with a program stressing anti-Americanism, the costs of rearmament, the threat posed to national sovereignty by the European integration movement, and the advantages to Western Europe of revived East-West trade.

The Kremlin probably regards West German rearmament and West German integration with the West as a serious obstacle to the achievement of Kremlin objectives and as a potential threat to Bloc security. However, the Kremlin probably estimates that ratification of the EDC agreements will be delayed until at least the early spring of 1953, that implementation of the program will be delayed even further, and that developments in Western Germany, France, or elsewhere may delay indefinitely, or even prevent, the actual formation of West German divisions. Therefore, we do not believe that the Kremlin will adopt courses of action during 1953 which it estimates would involve grave risk of war in order to prevent German rearmament or prevent West German integration with the West.

The USSR and/or East German government (GDR) will almost certainly apply increasing pressures on West Berlin, designed to effect the strangulation of the West Berlin economy.** However, partly because of the uncertain effects of a surface blockade and partly because of the Kremlin desire to avoid an adverse reaction in West German opinion, the odds are estimated to be less than even that the Kremlin will, before mid-1953, impose a surface blockade. We estimate that, in the pursuit of its objectives toward Berlin at least to mid-1953, the Kremlin will avoid courses of action which it estimates would involve grave risk of general war.

* This section has been prepared by CIA after considering contributions by IAC agencies to the pending NIE-64 (II), "Probable Soviet Bloc Courses of Action through Mid-1953," expected to be published about 1 December 1952.

** This paragraph is based on SE-30, "Probable Soviet Courses of Action with Respect to Berlin through Mid-1953" (5 pp., 6 June 1952). For more detailed discussion, see section VI-H, following.

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EUROPE

B. STATUS OF NATO DEFENSE EFFORT AND THE PROSPECTIVE
EUROPEAN DEFENSE COMMUNITY (EDC)

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Present Situation

Almost all European NATO countries substantially increased their defense budgets in 1952 and increased their combat-ready forces, with U.S. aid. There has also been further evolution of the NATO organization and strengthening of combined command structure, while Greece and Turkey have been admitted as full members. Substantial progress has been made toward completing the program for building combined-user airfields, headquarters, communications, and other facilities.

Nevertheless, the European NATO rearmament program has fallen substantially short of the goals set at the Lisbon Conference in February 1952. The Lisbon goals of roughly 50 divisions and 4,000 aircraft by the end of this year are unlikely to be met until at least mid-1953. Moreover, as preparations go forward for the next Annual Review designed to set new goals for the coming period, there are indications that the 1953 NATO rearmament effort is also likely to be considerably less than previously hoped. While all European NATO members remain convinced that the Soviet threat will continue, many of them appear less concerned than in 1950 over the danger of early Soviet aggression, and more concerned over the economic and political impact of higher rearmament outlays. (The proportion of gross national product devoted to defense by individual NATO powers is shown in the chart, Figure VI-B-1, following page VI-B-2.) Moreover, the new NATO Secretary General, Lord Ismay, has raised questions as to the necessity of such a large military buildup in the light of the development of new weapons. Meanwhile, the continued drain on UK and especially on French resources, as a result of their overseas commitments in such areas as Malaya and Indochina, continues to hamper their achievement of NATO goals.

The ratification of the 6-nation European Defense Community (EDC) treaty, which will permit the commencement of German rearmament, is running into serious obstacles in West Germany and particularly France.

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The French, on the other hand, retain misgivings about rearming Germany at this time, and opposition to EDC ratification remains strong. Right-wing nationalist groups like the Gaullist RPF oppose yielding French control over their armed forces to any supra-national authority. Many French politicians are demanding a satisfactory solution of the Saar question prior to ratifying the EDC. Several French political groups are insistent on closer UK links to the European Army. In view of these factors, French ratification remains in doubt.

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Estimate of Probable Developments

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However, in view of French fears of Germany, the French Assembly will probably be reluctant to ratify the EDC treaty until efforts have been made to obtain additional U.S. - UK guarantees against possible West German withdrawal, and until progress has been realized toward an acceptable solution of a number of other issues, such as the Saar, creation of a European political authority, and the level of American aid. We believe that France will eventually ratify the EDC treaty because of its fear that the likely alternative would be the creation of German national forces. In view of prospective delays, however, there is virtually no chance that the German build-up to 12 EDC divisions by mid-1954, envisaged at Lisbon, will be achieved.

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EUROPE

C. STATUS OF EUROPEAN ECONOMIC RECOVERY

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Western Europe's postwar economic recovery has brought production to levels substantially above those of the immediate prewar period. (See Chart, Figure VI-C-1, following this page.) However, in the first half of 1952, for the first time since the war, the over-all level of industrial production declined slightly. (See Chart, Figure VI-C-1.) A major factor was the sharp drop in UK production. Soft spots have appeared in several other European economies, particularly France, and to a lesser extent Belgium and Italy. A decline in textile and other consumer-goods industries has tended to offset continued progress in capital-goods and rearmament industries. On the other hand, the Western European countries have made some progress in halting post-Korean inflationary trends and stabilizing their economies. Moreover, a few countries like West Germany and the Netherlands have greatly strengthened their economic positions.*

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In its trade with the rest of the world, Western Europe is still suffering a fundamental balance-of-payments deficit which, in the absence of basic economic changes, would persist even if rearmament were cut back and the conflicts in Korea, Indochina, and Malaya ended. Although very great progress was made in reducing this deficit in the first two years of the Marshall Plan, since 1950 the deficit has grown sharply, particularly in the cases of the UK, France, and Italy. (See Charts, Figures VI-C-2, VI-C-3, VI-C-5, following this page.) In the case of West Germany, a rapid rise in exports since 1950 has still failed to keep pace with increased imports. (See Chart, Figure VI-C-4, following this page.) The persistence of these problems is tending to offset the trend toward multilateralism and liberation of trade which the OEEC, GATT, EPU, and other postwar institutions have been fostering.

*In connection with West German progress, it should be noted that the chart in Figure VI-C-1, showing West German industrial production to have increased less than that of any other country by comparison with 1938, presents a somewhat misleading picture of West German progress. The year of comparison, 1938, was extremely high in West Germany relative to the rest of Western Europe.

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VI-D-1

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EUROPE

D. STATUS OF EUROPEAN INTEGRATION

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Although Western Europe is still far from being "unified," there has been substantial, if uneven, progress toward a higher degree of Western European political, economic, and military integration since World War II. A complex series of international alliances and supra-national institutions have been established or are under consideration. They vary in membership from the 14-member NATO to the 6-nation "Little Europe" evolving among the continental Schuman Plan countries. (See Map and Charts, Figures VI-D-1 and 2, following this page.)

The gradual development of the NATO structure is providing a central military direction with an elaborate command structure, combined planning, a common defense program, and progressive standardization of arms, training and doctrine on an unprecedented peacetime scale. The 6-nation European Defense Community (EDC) treaty, if ratified, will lead to a far greater degree of supra-national integration.

In the economic field, integration has been more gradual. Nevertheless, the 17-nation Organization for European Economic Cooperation (OEEC), created in 1948 to coordinate Marshall Plan programs, provides a forum for joint action in such fields as rationalization of national recovery programs, trade liberalization, coal production, productivity, etc. Its offshoot, the European Payments Union (EPU), has facilitated currency conversion and stimulated intra-European trade. The longest stride toward economic integration has been the 6-nation Coal-Steel Community (CSC), recently created pursuant to the Schuman Plan. The first European institution with supra-national powers, its objective is to create a single market for continental coal and steel.

The first effort toward close European political association, the 14-nation Council of Europe, has served primarily as a forum for discussing common European political problems, largely because the UK and Scandinavia oppose at this time its assumption of more than consultative powers. A supra-national political organ, though with a more limited membership, appears more likely to be developed by the six Schuman Plan nations, which have asked the CSC Assembly to prepare a draft treaty for a parallel 6-nation European Political Authority (EPA) with real though limited powers.

The most significant feature of the European integration movement has been the trend toward creation of a "Little Europe" composed of France, Germany, Italy, and the Benelux countries and based on such supra-national institutions as the CSC, and the projected EDC and EPA. France took the lead in promoting this development, largely as a means of controlling and influencing West German revival. However, this movement is in some danger of losing momentum because of French reluctance to see German rearmament, even within an EDC. Moreover, it is impossible to foretell whether a renascent Germany, with its dominant objective of reunification, will continue to be as ardent a supporter of European unity as the Adenauer government is now.

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EUROPE

F. FRANCE

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In France, political instability and continued inflationary difficulties have been compounded by the strain of simultaneously attempting to meet NATO rearmament commitments, maintain a major effort in Indochina, and cope with growing nationalism in French North Africa. At the same time, the government is confronted with the necessity of critical decisions on Franco-German problems, such as the Saar issue and ratification of the EDC Treaty.* Internal tensions generated by these problems threaten the life of the Pinay government and particularly the tenure of Foreign Minister Schuman, whose approach to these issues has most consistently paralleled that of the U.S.

The center-right Pinay Cabinet, which came to power in March 1952, is the most conservative and the most homogeneous French government coalition since the war. It has concentrated on stabilizing the French economy, with an anti-inflationary program keyed to the slogan of "save the franc." After some success during the summer, Pinay's program for avoiding tax increases by budget cutting, improved tax collection, and moderate borrowing has run into increasing difficulties, and his imposition of price controls in late August may be insufficient to arrest a renewed inflationary trend. The government has paid less attention to the equally pressing task of stimulating exports to offset increased balance-of-payments deficits, and has limited itself to the reimposition of import restrictions at the expense of intra-European trade. (The trade balance is shown in Figure VI-C-3, following page VI-C-1, above.)

In foreign policy the Pinay government has become increasingly nationalistic in its approach to such issues as Franco-German relations, North African issues, and relations with the U.S. Pinay's coalition, with less than a majority of seats in the Assembly, remains in power on the sufferance of a group of 28 dissident Gaullists who support Pinay's domestic policy but differ with him and Foreign Minister Schuman on foreign affairs. Pinay has apparently been seeking to placate both this group and the Radical Socialist element in his coalition by a more nationalistic foreign policy line. Moreover, the serious strains on French resources arising from French domestic, NATO, and Indochina commitments have led to renewed French concern over whether France can maintain parity with a reviving Germany, and to resultant French demands for greater aid from the U.S. France also feels entitled to greater support from its allies on North African issues. It deems continued control over French North Africa essential to its great power position, especially vis-a-vis Germany. These factors largely explain Pinay's harder policy line and French reluctance to ratify the EDC.

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* The Saar issue is discussed in more detail in section VI-I, following, and EDC ratification is discussed in section VI-B, above.

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French Communist prestige and strength have been declining as a result of a sharp drop in trade union membership, increasingly drastic government counter-measures, and the failure of the party's direct action tactics. There are also apparent internal dissensions, as evidenced by the recent Marty-Tillon episode, over application of the reported new Moscow policy calling for "united front" tactics. Nevertheless, the Communists are still the largest party in France, have the largest press, and maintain control over by far the largest French trade union federation, the CGT. They still retain considerable propaganda, subversive, and sabotage capabilities, particularly in event of war.

France is carrying out a major rearmament effort. (See Chart, Figure VI-B-1, following page VI-B-1, above.) Its armed forces are increasing in size, morale, and training, and equipment needs are gradually being met, largely through massive U.S. aid. The Indochina war, which takes roughly one-third of the French military budget, constitutes a heavy drain on French manpower and financial resources. France has not yet made good the very large defense contribution agreed on at Lisbon as the French share of NATO force goals.

Estimate of Probable Developments *

We believe that there will be a continued trend to the right in France and that French governments between now and the next elections (1956) will be generally of a moderate rightist character. The primary objective of their domestic policy probably will be to bring inflation under greater control and to stabilize the economy. Some success in these efforts may be achieved at the expense of capital investment, foreign trade liberalization and rearmament. The government will proceed more aggressively against the French Communists but is unlikely to outlaw the party. Moreover, the still uncertain state of French morale, together with French fears of Germany, will continue to make France susceptible to Soviet overtures holding out any promise for a detente.

France will continue to make every effort to safeguard French interests and to maintain its great-power position by: (a) playing a major role in NATO and in European integration; (b) maintaining parity with a reviving Germany, while attempting to influence or control Germany's revival; and (c) holding firmly to its overseas possessions, particularly North Africa. However, because of its own political, military, and economic weaknesses France will almost certainly be unable to carry out simultaneously the policies outlined above, and the relinquishment or replacement of its influence, particularly in its overseas possessions, will present continuing problems for U.S. policy. We believe that France

* This estimate has been prepared by CIA after considering IAC agency contributions to the pending NIE-63, "France's Prospective Ability to Play a Major Role in the Western Security System," scheduled for publication in November 1952.

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will be unable for the next few years to increase its over-all rearmament efforts substantially above 1952 levels, barring a large increase in external support. Moreover, France will continue to insist on strong U.S. support for its position in Europe, Indochina, and North Africa, as essential to continued French efforts to achieve NATO goals.

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VI-H-1

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EUROPE

H. BERLIN

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Present Situation.

There have been recurrent and apparently increasing Soviet and East German pressures on the Western position in Berlin since the spring of 1952. The following major forms of pressure have been employed in this period:

- a. Restricting the number of rail and road border crossing points between the Soviet Zone and West Germany. Only 4 of 10 roads and 7 of 8 passenger rail lines in operation before May 1952 are now open. (The crossing points now open are shown on the Map, Figure VI-H-1, following page VI-H-2.)
- b. Interrupting the canal routes between the Western sectors of Berlin and West Germany. These carry an important part of the commercial traffic.
- c. Gradually isolating the Western sectors from East Berlin and from East Germany, through physical barriers, increased border patrols, and other means.
- d. Attempting to intimidate the West Berliners by arresting them under East German laws while outside West Berlin, and on occasion by kidnaping leading anti-Communists from West Berlin itself.
- e. Barring hitherto customary Western MP patrols from the main autobahn between Berlin and Helmstedt in West Germany.

There are numerous other opportunities for similar Communist pressures, while the opportunities for Western retaliation — used effectively during the 1948-49 blockade — have been sharply reduced, notably by the construction of new rail and canal links so that no major Communist transportation routes can now be cut off within West Berlin.

Despite these pressure tactics, the volume of trade between the West Berlin and West Germany has actually increased during the last six months. Moreover, considerable progress has been made by the Western occupying powers in building up stockpiles of food, fuel, and other goods. (See Chart, Figure VI-H-2, following page VI-H-2.) Morale in the city is now good. However, production levels are still low, and it is estimated that 25 percent of the labor force is unemployed. A large number of refugees from East Germany entered the Western sectors during the summer of 1952, and the influx continues.

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Estimate of Probable Communist Courses of Action toward Berlin *

The expulsion of the Western Powers from Berlin will remain a basic Soviet objective. The Kremlin regards the Western position in Berlin as a troublesome Western intelligence and political warfare base and as a substantial impediment to the Soviet program for East Germany.

The USSR and/or East German government (GDR) will almost certainly apply increasing pressures on West Berlin, designed to effect the strangulation of the West Berlin economy. After the ratification of the contractual and European Defense Community agreements, the likelihood of extreme harassing tactics will probably increase substantially and progressively. The GDR may even threaten to use force in order to test Western unity and resolution. However, partly because of the uncertain effects of a surface blockade and partly because of the Kremlin desire to avoid an adverse reaction in West German opinion, the odds are estimated to be less than even that the Kremlin will, before mid-1953, impose a surface blockade.

We believe that the Kremlin probably now estimates that the use of armed force in Berlin either by the USSR or by the GDR would be met by force on the part of the U.S. and other Western occupying powers, and that measures short of force would be countered to the maximum of Western capabilities. Furthermore, the Kremlin probably estimates that the U.S. would resort to force if the Western position in Berlin became or were about to become untenable. The danger of war over Berlin will remain great. However, we estimate that, in the pursuit of its objectives toward Berlin at least to mid-1953, the Kremlin will avoid courses of action which it estimates would involve grave risk of general war.

* This estimate is an abstract of SE-30, "Probable Soviet Courses of Action with Respect to Berlin through Mid-1953" (5 pp., 6 June 1952), and amplifies the discussion in section VI-A, above.

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VI-I-1

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EUROPE

I. SAAR

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The Saar issue, which has irritated Franco-German relations continuously since 1950, now threatens final ratification of the European Defense Community pact.

The area itself is about three-quarters of the size of Rhode Island, with a population of 900,000, all German-speaking. It produces approximately 15 million tons of coal and 2 million tons of steel annually. The present status of the Saar is provisional, pending a peace treaty with Germany, and is based on a Franco-Saar Convention signed in March 1950. Under this Convention, France is responsible for the defense and foreign relations of the Saar and exercises substantial control over the Saar economy through joint management of coal mines and railroads as well as through a monetary and customs union. In addition, the French enjoy a broad right to veto laws passed by the Saar government that would change the present status of the Saar. Pro-German parties, opposed to the present pro-French regime, are presently not permitted in the Saar. The Saarlanders, who, contrary to occasional German allegations, are free to express their individual opinions openly, regard France as an occupying power and consider themselves to be Germans. Most Saarlanders would prefer to return to Germany, but there has been some shift of opinion toward favoring a "European" or "Federal" status, provided that such a solution were permanent and were acceptable to Germany.

In a series of talks during 1952, Chancellor Adenauer and Foreign Minister Schuman agreed that the Saar should be internationalized within the framework of an integrated Western Europe. They also envisaged a relaxation of French controls over the Saar economy and licensing of pro-German parties. They are currently in disagreement, however, over the permanency of the settlement, the conditions for admittance of the pro-German parties, and the phasing out of French controls over the Saar economy. The increasingly charged political atmosphere in both Paris and Bonn makes the task of concluding a Saar settlement particularly difficult. Meanwhile, the issue is likely to endanger Franco-German understanding and thus to damage the prospects for European integration, including a German defense contribution within the EDC framework.

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VI-J-1

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EUROPE

J. THE GERMAN UNITY ISSUE

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Present Situation

Direct Soviet offers on German unification this year began with the formal Soviet note of 10 March calling for the negotiation of a German peace treaty and the formation of a unified German government, with a national German army. Further Soviet notes were despatched on 9 April, 24 May, and 23 August, and the Allies replied on 25 March, 13 May, 10 July, and 23 September, respectively. The fundamental point at issue has been that of all-German elections, which the Allies insist must be preceded by an impartial investigation of political freedom in East and West Germany, and supervised by a truly impartial body so as to guarantee the free character of the elections. While the Soviet Union accepted the principle of all-German elections, it has been unwilling to allow impartial investigation or supervision, and has insisted on Big Four discussion of other issues such as the peace treaty before such elections are discussed. The latest Allied and Soviet notes both state a willingness to commence negotiations in the near future providing that there is agreement on an agenda. However, the Soviet Union wants treaty terms discussed first and the election commission last. It evidently intends to embroil the Allies in long and fruitless discussions without ever proceeding to the formation of an election commission with powers of investigation extending to East Germany.

Few West Germans place any faith in Moscow's unity offers, yet many, including members of the coalition parties as well as the opposition Social Democratic Party, evidently feel that, before EDC is ratified, a last attempt should be made to reunify the nation through a four-power conference.

Estimate of Probable Developments

We estimate that the Kremlin probably will not permit free elections to be held in East Germany, nor will it so relax its controls over East Germany as to affect the foundations of Soviet authority.*

Nevertheless, we believe that the German unification issue will continue to be stressed by Soviet diplomacy and political warfare, and that it may further delay Western defense plans. Although the current exchange of notes between the Western powers and the USSR has contributed to a somewhat clearer appreciation of Soviet motives, a last-minute West German or French demand for "one more try" may force further postponement of final ratification of the accords linking West Germany with the West.

* This paragraph is an abstract of NIE-53/1, "Review of Probable Soviet Courses of Action with Respect to Germany during 1952, in the Light of Recent Soviet Moves" (2 pp., 1 May 1952).

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EUROPE

K. ITALY

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Present Situation

The Italian Government under Premier De Gasperi has consistently supported NATO, EDC and other organizations for European integration. However, handicapped by opposition from both the Communists and growing right-wing nationalist forces, and by its own failure to deal with Italy's chronic economic weaknesses, the government has been declining in popularity, and faces a crucial test in the elections scheduled for the spring of 1953. In the local elections of 1951 and 1952, De Gasperi's Christian Democrats, allied with three minor center parties, polled only about 51 percent of the vote; and the trend continues to be toward the two political extremes.

On the right, the neo-fascist Italian Social Movement (MSI) is building a popular following, partly by exploiting the economic situation and partly on the issue of Trieste, which has inflamed Italian sentiment.* Strong elements within the Christian Democratic Party want to counter this tendency toward right-wing extremism by forming an electoral alliance with the conservative Monarchists. This maneuver, sponsored by Luigi Gedda, president of the powerful Catholic Action, appears to be getting increased Vatican support. The main Christian Democratic hope for continued parliamentary control after the next elections is based, however, on a projected new law which alters the electoral system to increase the parliamentary representation of the parties getting a majority of the votes.

The Communists and their allies, the Nenni Socialists, slightly improved their strength in the 1951-52 local elections and polled 37 percent of the vote. The Communist Party is stressing such issues as the high cost of living, delays in enacting socio-economic reforms, anti-clericalism, and "peace." Particularly on the last issue, the Nenni Socialists and various front organizations may make an important bid for unattached voters. The Communists also control the General Labor Confederation, which surpasses in size and influence the two anti-Communist labor organizations combined. Although the Communists have some paramilitary units, there is no indication that they plan a show of force. On the other hand, they are intensifying efforts to subvert the armed forces. Some 20 percent of the new recruits in the army are believed to be Communist sympathizers, with a smaller percentage in the navy and air force, but in view of the stricter surveillance which the Italian authorities claim they are exercising, all three branches of the service are probably still overwhelmingly loyal to the government.

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* For detailed discussion of Trieste, see section VI-L, following.

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The Italian economy is going through a difficult deflationary period, and the balance-of-trade deficit has increased sharply. (See Chart, Figure VI-C-5, following page VI-C-1 above.) Unemployment is increasing, exports are decreasing, while defense demands and the investment expenditures necessary to counterbalance economic deterioration threaten to increase the already sizeable budgetary deficit. Despite sizeable post-war U.S. aid, the weaknesses of the economy, resulting from past wars, present paucity of capital, and lack of resources to support a large and growing population, are so profound that the achievement of economic stability and an appreciably better standard of living appears very unlikely in the foreseeable future.

The Italian armed forces, with substantial U.S. support, have made considerable progress. Morale has been raised as a result of the receipt of some new equipment, increases in pay, and improvement in housing conditions. Nevertheless, the obsolescent nature of most Italian equipment severely limits offensive and defensive capabilities. The Carabinieri are an efficient, highly trained police force capable of maintaining internal order unless revolutionary action were supported by outside intervention.

Estimate of Probable Developments *

In the 1953 national elections the Italian democratic parties as a group are likely to receive at best only a narrow majority of the vote. The Communist vote will probably increase slightly and the rightist vote substantially compared to the 1948 elections. However, the revised electoral laws will probably assure the democratic parties an adequate parliamentary majority for the next five years. A "center" coalition government will probably be reconstituted, at least for the short run, with the balance of political power likely to be more toward the conservative right of the Christian Democratic Party than at present. In the longer run, there is some likelihood of a more extreme rightist regime emerging, particularly should Premier De Gasperi die or retire.

Center-right or rightist governments will probably take more stringent action against the Communists. However, they are unlikely to make any forthright attack on Italy's problems of massive unemployment and maldistribution of wealth. Economic stability will probably continue to be maintained at the expense of economic growth. Italy probably will become increasingly nationalistic in its outlook, particularly on the Trieste issue. As a consequence, Italo-Yugoslav relations are likely to be rendered still more difficult, to the detriment of any joint defense planning. However, continued Italian support for European integration measures is likely, especially as long as they hold out the promise of facilitating international labor mobility and freer access to basic resources.

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* This estimate has been prepared by CIA on the basis of contributions by IAC intelligence agencies to the pending NIE-71, "Probable Outlook for Italy," expected to be published in December 1952.

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VI-L-1

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EUROPE

L. TRIESTE

(See Map, Figure VI-L-1, following this page.)

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Present Situation

Despite recent efforts by the U.S., the UK, and France to bring Italy and Yugoslavia together on the Trieste issue, the positions of the two countries have hardened with a wide gap still remaining between them. Increased Yugoslav intransigence has been indicated by Tito's negative reaction to the three-power approach of last August

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Apparently the Belgrade Government is satisfied with the present territorial division and is confident that, because of its strategic value to the West, Yugoslavia cannot be forced to retreat. Furthermore, the apparent Yugoslav belief that there is no longer any immediate danger of Soviet aggression has removed any urgency that Tito may have felt for cooperation with Italy.

The Italian position, formerly predicated on the return of the entire Free Territory to Italy, was recently modified to permit negotiations toward an ethnic solution. According to the Italian interpretation this would give Italy all of Zone A, except for a few inland villages, and at least the north coast of Yugoslav-controlled Zone B, with enclaves around the west coast cities of Cittanova and Umago. (See map.) Further compromise by De Gasperi would be extremely hazardous in view of his precarious political position, the imminence of the 1953 elections, and the strong nationalist sentiment that the Trieste issue generates in Italy.

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Estimate of Probable Developments

The strongly nationalistic attitudes of both Italy and Yugoslavia will make it extremely difficult to secure any formal bilateral settlement of the Trieste issue, particularly one which involves any Yugoslav cession of territory they now control. We estimate that a *de facto* settlement along present zonal lines, with Zone A administered by Italy and Zone B absorbed by Yugoslavia, is more likely to evolve. While Yugoslavia would protest any return of Zone A to Italy, it probably would not strongly oppose such a move. Italian public opinion, too, would probably be more willing to accept a *de facto* solution, not involving official relinquishment of Italy's ambitions, than a negotiated settlement in which Italy would be wholly unlikely to secure its territorial demands.

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VI-M-1

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EUROPE

M. AUSTRIA

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Present Situation

The Austrian government and overwhelming majority of the Austrian population are pro-Western in sympathy, but there is some evidence of increased restiveness over the military occupation. Treaty negotiations, however, have made no progress since 1949, as the USSR has shown no willingness to alter the *status quo*, which protects Russian military and economic interests in Austria without directly challenging the semi-sovereignty of the Austrian Government.

A coalition of Austria's two major parties, the Socialists and the conservative People's Party, has, with minor changes, governed Austria since the war. The sudden resignation of the cabinet on 23 October in a dispute over the 1953 budget is symptomatic, however, of the degree to which basic differences between the coalition parties have hardened in the last two years. The quadrennial elections, which are now expected in the early months of 1953, will add new uncertainties to the Austrian political situation for the next six months.

The Austrian economy is in chronic difficulties, despite some \$1 billion of American aid since 1945. While a tenuous stabilization has been achieved and dependence upon foreign aid has diminished, serious problems of unemployment, insufficient private investment, inadequate credit controls, and restrictive business practices remain.

Certain minor steps toward the creation of a post-occupation Austrian defense force have been undertaken. Police and gendarmerie units, despite some Communist infiltration, are adequate to maintain internal security under present circumstances. The Communists, with only 5 percent of the vote, are of little significance as a party and are dependent on direct Soviet support even for effective subversive activity.

Estimate of Probable Developments

It is not likely that the USSR will make the concessions necessary to conclude an Austrian treaty in the foreseeable future. The USSR will probably continue its policy of delaying tactics because of the strategic, political, and economic advantages derived from its position in the Eastern Zone. However, the USSR, though capable of doing so, is unlikely in the near future to seal off the Eastern Zone of Austria or impose a blockade of Vienna. Meanwhile, occupied Austria will continue to be unable to resolve its economic problems and will remain in need of external aid. A People's Party-Socialist coalition government will probably be reconstituted after the forthcoming elections, but the long-run prospect is for further gradual deterioration of relations between the two parties.

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EUROPE

N. BENELUX COUNTRIES

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The economies of the Benelux countries are basically sound and are currently in a generally favorable position. The Dutch in particular have made excellent progress toward monetary and commercial equilibrium during the past year. But over-concentration of trade with France, the UK, and West Germany renders Benelux exports highly vulnerable to European trade restrictions. The Benelux economic union was partially implemented in the early postwar period, but negotiations for its completion have been at a standstill for the past few years. Moreover, the benefits of the Benelux Union have been one-sided in favor of the Netherlands.

The policies of the Netherlands coalition government remain relatively unchanged after the June elections, although the increase in Labor Party parliamentary strength has influenced the government toward greater concern with internal social and economic questions. In Belgium, the Social Christian (Catholic) government has steadily lost strength and direction. Following their gains in the recent communal elections, the Socialists are pressing for dissolution of the government and new elections, but the Social Christians appear determined to remain in office. The government will thus be forced to increase its efforts to avoid controversial subjects.

Despite prior reservations, the Benelux countries have participated fully in European integration measures. The Belgians fear that integration is proceeding too rapidly, however, while the Dutch consider that economic integration should precede military and political unification. Furthermore, the Low Countries want firmer British guarantees to counterbalance French and German influence within the European Defense Force. Although the Dutch government has decided to press forward with EDC ratification, Belgium tends to await action by France. The Belgians object to having a longer term of military service than their continental neighbors, and are insistent on adoption of the same conscription period by all six EDC members prior to ratification.

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EUROPE

O. SWITZERLAND

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Switzerland's traditional neutrality, which prevented its applying for UN membership, has been somewhat qualified by increased cooperation with the United States in restricting shipments of strategic commodities to the Bloc

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Switzerland continues to be stable politically and prosperous economically, being one of the few countries with no dollar problem. The capabilities of its armed forces are rated as good, and their morale as extremely high.

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EUROPE

P. SCANDINAVIA

(Norway, Denmark, Sweden, Finland) *

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NORWAY

With the support of all non-Communist parties, Norway's Labor government firmly adheres to NATO. The Communists have no parliamentary representation and little trade union strength. Merchant marine earnings have now produced a favorable over-all balance of payments; but a small dollar deficit persists. The government remains at present opposed to the occupation by U.S. units of airfields in Norway, because it fears that the USSR will consider such action provocative. No major concessions on this issue are anticipated before the parliamentary election in September 1953. Following that event, however, it is possible that Norway's base policy will shift toward accommodating U.S. wishes, if the international situation remains unchanged. Meanwhile, Norway is proceeding to improve several airfields in order to meet U.S. requirements.

* In view of the separate NSC policy and specific U.S. interest therein, Iceland is covered separately in the following section, VI-Q.

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EUROPE

Scandinavia

DENMARK

Denmark's adherence to NATO remains firm despite the instability of its minority coalition government, because the Social Democrats, the major opposition party, support the government on defense and foreign policy. The Communists hold seven seats in parliament and control a few union locals. Although Denmark will probably soon have an over-all favorable balance of trade, it still faces a chronic dollar deficit. Military expenditures have been increased, and the conscription period raised to 18 months. The government is now planning to expand Danish airfields to meet NATO specifications and can be expected eventually to accept American forces on Danish soil. Denmark already cooperates closely with the U.S. in allowing U.S. bases in Greenland.

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EUROPE

Scandinavia

SWEDEN

Although Sweden, the largest and most important of the Scandinavian countries, remains aloof from NATO, there has been a marked deterioration in Swedish-Soviet relations, and the government is informally cooperating with the NATO powers in restricting strategic exports to the Bloc. Despite losses in the September election, and growing opposition, a stable Social Democratic-Agrarian coalition still controls the parliament. Communist strength has fallen to five representatives from Gothenburg, Stockholm, and the north. The Communists retain some trade union strength in these areas. Sweden's prosperous and highly developed economy enjoys a relatively satisfactory balance-of-payments position. Although Sweden boasts an air force second only to that of Britain in Western Europe, its aircraft types are basically defensive and the air force is dependent on imported fuel.

We estimate that Sweden will continue to cooperate informally with the U.S. on such matters as East-West trade controls, but it will almost certainly cling to its "alliance-free" policy as long as possible, even in event of war. Sweden would probably not yield to any Soviet pressures to alter its foreign or military policies; it might, however, make limited economic concessions. Meanwhile, Sweden will continue to maintain fairly effective military forces at a size which it hopes would deter invasion. If attacked by the USSR, the Swedes would resist with all their resources, but they are at present capable of no more than delaying actions against a major Soviet attack.*

* This paragraph is an abstract of NIE-49, "Sweden's Position in the East-West Conflict" (12 pp., 26 March 1952). That estimate remains valid in essential respects.

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EUROPE

Scandinavia

FINLAND

Finland's desire to remain neutral in the East-West struggle is necessarily qualified by its proximity to the USSR, the Soviet-Finnish mutual assistance treaty, and the existence of a Soviet naval base on Finnish soil. Since all responsible political parties realize the need for unity against the common danger, an uneasy non-Communist coalition government seems bound to continue. The Communists, who occupy about one-fifth of the seats in the Diet, are unable to overthrow the present government without overt Soviet assistance. However, growing trade with the East and declining trade with the West pose a real danger of Finnish economic integration into the Bloc. Finland's small armed forces are adequate only for maintaining internal security.

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EUROPE

Q. ICELAND

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Iceland's participation in NATO, which consists largely of permitting a large American-manned airbase at Keflavik, is complicated by the population's very strong nationalistic feeling, based on a fear of being culturally overwhelmed. Iceland has no military units of its own. The government consists of an uneasy Conservative-Progressive coalition. The Communists enjoy extensive labor support and poll about 20 percent of the vote. The previously severe inflation has eased, but the economy continues dependent on the fishing industry and is therefore extremely vulnerable.

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EUROPE

R. PORTUGAL

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Portugal has granted the United States extensive military facilities in the Azores and made defense commitments to NATO, largely in the expectation of substantial American assistance. However, Lisbon's recent disappointment over "inadequate" U.S. financial and military aid has raised doubts concerning the degree of future Portuguese cooperation. Portugal's chief diplomatic objective as a NATO member is to secure Spain's admission to NATO. It already has a separate alliance with Spain.

Internally, there is no effective opposition to the dictatorial Salazar regime. A six-year economic development plan was announced last summer to raise the country's extremely low living standards and stabilize its precarious foreign trade position. The Portuguese armed forces remain small in numbers and inadequately equipped.

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EUROPE

S. SPAIN *

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Slow progress has been made in the U.S.-Spanish base negotiations which started last April. The U.S. is seeking to obtain certain air and naval base rights and in return has offered the financial assistance already voted Spain by the U.S. Congress, and certain minimal U.S. military commitments, primarily such as would be necessary to secure adequate operational conditions for the bases. The Spanish government, on its part, has held that grant of bases to the U.S. would cause Spain to come under immediate Soviet attack in the event of war and that Spain must therefore be adequately prepared to resist such an attack. Consequently, the Spanish have sought to obtain maximum U.S. commitments to defend Spain and build up the Spanish armed forces. The Spanish armed forces, large in comparison with other European armies, and reputedly of high morale, are very poorly equipped and lack up-to-date training. Therefore, such U.S. commitments would entail a considerably greater cost than originally envisaged by the U.S.

Internally, the Franco regime remains in firm control; opposition groups are ineffective, and organized Communist activity practically non-existent. Spain's agricultural position this year is the best since the Civil War; relatively high employment has raised the per capita income to pre-Civil War levels. Although the government has been mildly successful in stabilizing prices by permitting substantial imports, this has resulted in a balance-of-payments deficit of about \$7,000,000, as compared to a surplus of about \$60,000,000 for the same period last year. The government is trying to relieve the acute shortage of sterling and dollar reserves by increasing exports of textiles, by offering mercury to the United States at reduced prices, and by authorizing the sale of lead and low-grade pyrites for dollars even when these minerals are destined for the Soviet Bloc.

Estimate of Probable Developments

The outcome of the U.S. - Spanish negotiations is uncertain. Because of the objections of many European NATO members, Spanish entry into NATO will not be possible at least for some time. The Spanish regime is likely to remain stable at least while Franco lives. It will be strengthened for the immediate future by recent good crops and expected improvement in the economic situation. Spanish standards of living, however, will remain among the lowest in Western Europe.

* This section is based in part on NIE-34, "Spain's Potentialities in Western Defense," (4 pp., 30 July 1951); which is out of date in substantial respects, but contains useful information.

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EUROPE

T. YUGOSLAVIA *

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Present Situation

The Yugoslav government has maintained a high degree of stability despite economic difficulties, Soviet pressure tactics, Soviet-inspired attempts at subversion, and the passive hostility of a majority of the Yugoslav people. However, recent government moves to decentralize the top-heavy Soviet-type bureaucracy have been resisted by some local Communist officials. The regime has intensified its oppressive measures against religion, while relaxing somewhat pressure on the peasantry.

The Yugoslav economy is primarily agricultural. World War II destruction, Tito's overzealous industrial investment program, Soviet economic boycott, and two serious droughts within the last three years have forced the standard of living lower and burdened Yugoslavia with a heavily unfavorable balance of trade. Western economic and military assistance rescued the Tito regime from an economic breakdown and the threat of consequent subversion by pro-Soviet forces.

Yugoslavia's controversy with Italy over the future of the Free Territory of Trieste continues,** but at the same time Tito is successfully promoting closer relations with Greece and Turkey. There may be limited coordination of Yugoslav-Greek-Turkish defense plans, although Tito is avoiding any entanglement with NATO. Yugoslav subversive activity against the Albanian Communist regime could conflict with the interests of Greece and Italy, as well as the Soviet Union.

The Yugoslav conscript army of 325,000 men, organized into 33 divisions and other independent units, is relatively well-trained and led by officers loyal to Tito. Staff work is weak and equipment not of the best, but Western military assistance is gradually mitigating these deficiencies. The Yugoslav-Satellite frontiers continue to be the scene of armed clashes, but the Yugoslav leaders now feel that there is less threat of a Soviet or Satellite military invasion than at any time since 1948.

Estimate of Probable Developments

We believe that the present Communist regime in Yugoslavia will increase its dictatorial control in the country during 1953. Within the government, some anti-Western feeling will remain, though it will probably continue to decline gradually. The domestic aims of the regime — forced industrialization, agricultural collectivization, religious repression — will continue to exist, but temporary modifications and adjustments in these programs will be made in response to the local

* This section is based largely on NIE-29/2, "Probable Developments in Yugoslavia and the Likelihood of Attack upon Yugoslavia, Through 1952" (6 pp., 4 Jan. 1952). The analysis of that estimate is still valid in essential respects.

** For discussion of this question, see Section VI-L above.

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situation and the influence of relations with the West. In foreign policy, the Yugoslavs will continue to maintain close economic and military ties with the West, to demand Western economic and military aid, and to attempt to improve relations with Greece and Turkey. For the immediate future the Yugoslavs will probably continue to exert pressure against the Albanian regime without directly intervening or deliberately precipitating a coup attempt.*

We believe that Satellite capabilities for military aggression against Yugoslavia will increase during 1953, but that Yugoslav capabilities will also continue to increase. We believe that a Soviet or Satellite attack upon Yugoslavia in 1953 is unlikely.

* The sentence relating to Yugoslav intentions toward Albania is taken from NIE-42/1, "Yugoslav Intentions Toward Albania" (2 pp., 20 October 1952).

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EUROPE

U. GREECE

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Present Situation

Greece is scheduled to hold parliamentary elections on 16 November and currently has a non-political "service" government. The November balloting, which will follow the majority system rather than the proportional representation system used in previous elections, will be mainly a contest between Marshal Papagos' rightist Greek Rally, which secured 44 percent of the legislative seats in the vote of September 1951, and the former government coalition of the left-centrist EPEK and the centrist Liberal Party. Despite some recent coalition defections to Papagos, the outcome remains uncertain. The only other important entry in the field is the Communist-backed EDA, which polled about 10 percent of the vote last year and might conceivably emerge with the balance of power in the new parliament. Although the Communist movement has benefited to some degree from the government's amnesty program and EPEK's attempts to recruit leftist support, the party remains a small outlawed organization and does not present any early threat to internal stability.

Greece is firmly committed to an anti-Soviet, pro-U.S. position and to support of Western defense preparations. During the last year it has made some progress toward closer political and military relations with Turkey and Yugoslavia and has recently, for a variety of reasons, sought inclusion in the projected Middle East Defense Organization (MEDO). However, some friction does exist between Greece and the UK as a result of the recurrent Greek popular agitation for union of British-held Cyprus with Greece.

The Greek armed forces, numbering about 190,000, have profited from American training and equipment and their experience in the guerrilla war and are currently estimated to be capable of defending all but Thrace against Satellite aggression if given adequate logistical, naval, and air support from abroad. The recent reduction of U.S. aid has stimulated increased internal pressure for a cut in the armed forces, which now absorb about one-third of the budget.

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Despite Greece's progress under the Mutual Security Agency program, rehabilitation has been slowed by the reluctance of Greek political leaders to undertake essential economic reforms. A decrease in American aid and continued emphasis on defense production has caused some unemployment. Greece's difficulties in selling its normal exports, particularly tobacco, have increased internal pressure for trade with the Soviet Orbit.

Estimate of Probable Developments

Regardless of the results of the election, there is no present prospect for any major change in the Greek situation.

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VII. LATIN AMERICA

A. OVER-ALL SITUATION *

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Political Trends

The political instability now evident in Latin America results from a progressive deterioration of the traditional social order. This instability is therefore much more profound than that which characterized the personal politics of Latin America in the past.

The immediate political trend in Latin America is toward extremely nationalistic regimes based on demagogic appeal to the depressed masses of the population, of which the Peron regime in *Argentina* is the prototype. ** This trend is favorable to Peron's efforts to form a bloc of Latin American states antagonistic to the U.S.

Brazil, ** [] and *Uruguay* have gained a relative measure of stability by partially adjusting to a new social order based on increasing participation of the middle and lower classes in government and in an expanding economic life. Even in these countries, however, there are potential leaders of extremist forces.

In western and central South America, the newly elected President Ibanez of *Chile* ** has widespread popular backing at least temporarily. In *Ecuador*, however, the chronic threat of an army coup is expected to continue under the recently inaugurated President Velasco Ibarra, whose two previous terms were ended by army revolts in 1935 and 1947. In *Peru*, recent arrests of certain leaders have reportedly not completely discouraged a revolutionary plot backed by certain army and other elements opposed to President Odria. In *Bolivia*, a revolution in April 1952,

[] brought to power a regime headed by Paz Estenssoro; the country is currently beset by financial difficulties and by differences between government officials and extremist labor leaders over methods of executing the decision to nationalize tin properties, the major source of foreign exchange. In *Paraguay*, sharp inflation aggravates the dangers of a recent schism within the small ruling clique under President Chaves.

On the northern coast of South America, *Colombia* ** is in a state verging on civil war, while there is strong political tension in *Venezuela*, ** despite the relative economic strength of both countries.

In Central America, *Guatemala* ** is currently the principal focus of concern because of the large Communist influence in its government. The situation in *Panama* ** has apparently been temporarily stabilized

* This section has been prepared by CIA on the basis of contributions to the pending NIE-70, "Conditions and Trends in Latin America Affecting U.S. Security," expected to be published about 15 November 1952.

** The most important individual countries are discussed in detail in later sections of this chapter, as follows: VII-B, *Argentina*; VII-C, *Brazil*; VII-D, *Chile*; VII-E, *Colombia*; VII-F, *Venezuela*; VII-G, *Guatemala*; and VII-H, *Panama*.

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by the election of the new President Remon. Elsewhere in Central America, with the possible exception of *Costa Rica*, there is relative stability.

In the Caribbean area, there is relative stability in both *Haiti* and the *Dominican Republic*. In *Cuba*, however, economic problems such as those presented by the serious sugar surplus and widespread unemployment accentuate the unrest caused by extensive opposition to Batista. This opposition has been growing since Batista overthrew the Prio regime in March 1952, but it is still probably not strong enough to overthrow the regime.

Communism in Latin America:

The Communist threat to U.S. interests in Latin America is a consequence of the ease with which Communists, operating through various fronts, can exploit the social unrest and ultra-nationalism already existing in the non-Communist population. The Communists are unlikely to gain direct control over the policy of any Latin American state within the foreseeable future. However, they are capable of obstructing American policy by propagating hostile ideas, encouraging neutralist sentiments, and influencing nationalist and other groups which want to curtail American influence. This capability is greatest in Guatemala, but potentially more dangerous to U.S. security interests in Argentina, Brazil, and Chile.

Throughout Latin America, local Communists are capable of serious initial sabotage in certain strategic industries and communications facilities, such as the Venezuelan oil fields and possibly the Panama Canal.

Degrees of Communist influence in individual countries, and countries having Soviet Bloc diplomatic representatives, are indicated on the maps, Figures VII-A-1, and VII-A-2, following page VII-A-4.

Economic Trends

Latin America has traditionally served as a supplier of raw materials and foodstuffs to the highly industrialized countries of North America and Europe and has depended on those countries for nearly all of its requirements of manufactured products. The Latin Americans, however, are no longer willing to accept what they describe as a colonial economic status. This feeling was accentuated by their experience during and after two World Wars, when their supply of manufactured products from the industrialized countries of North America and Europe was cut off. They seek a greater degree of economic independence and stability through such measures of economic nationalism as protective tariffs, exchange restrictions, export controls, and government-sponsored industrialization.

Progress toward industrialization is difficult to sustain. Development of new domestic industries and the basic transportation and energy services requires the diversion of capital and other scarce resources from the development of the raw material export sector of the economy. Foreign loans and investment capital for industrial expansion have not been forthcoming in effective quantity in the postwar period, in large

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part because of the restrictions and uncertainties engendered by the prevalent economic nationalism. Industrialization, therefore, has been for the most part government sponsored and financed, and its form and direction have often been governed by political rather than economic purposes. One aspect of the prevalent economic nationalism has been a tendency toward the expropriation and nationalization of foreign-owned utilities and industrial enterprises.

Because of Latin America's preoccupation with industrial development, the increased agricultural productivity which might have resulted from a relatively small increase in agricultural investment has not been realized. Although 60 to 70 percent of the population is still engaged in agriculture, the supply of foodstuffs for domestic consumption has not kept pace with population growth.

Inflation has increased the economic and political strain in Latin America. Inflated prices of necessities in urban areas have increased the cost and reduced the efficiency of industrial labor. Increasing distress among depressed elements in the population has compelled governments to embark on costly social welfare programs.

A serious economic crisis in Latin America was averted only by the rise in prices for Latin American export commodities following the outbreak of hostilities in Korea. If the terms of trade should again deteriorate, many Latin American economies would be severely shaken. In those countries where programs of industrialization are under way, a slackening of those programs would produce social problems of a most serious order, with grave political consequences. The countries most vulnerable in this respect [redacted] — are those which could render the greatest material support to the United States in the event of war.

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Cooperation with the United States

Since World War II relations between the U.S. and Latin America have been subjected to new types of strains. Isolationist and anti-U.S. sentiment has been kept alive or strengthened by domestic political, economic, and social problems. [redacted]

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When war broke out in Korea, there was unanimous initial support in Latin America for the UN decision to act. The five nations which had not yet ratified the Inter-American Treaty of Reciprocal Assistance quickly did so. Later, all but Argentina voted for the UN Uniting for Peace Resolution. More recently, all Latin American nations except Argentina and Guatemala have given the U.S. excellent support on all important political questions in the UN that involved the East-West struggle.

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[redacted] At the 1951 meeting of Foreign Ministers, the Latin American nations pledged increased production and allocation of strategic materials in short supply. Because of the general desire to industrialize, these pledges were reluctantly given, implementation has not been effective.

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tive, and production as a whole has not expanded above postwar levels. Latin American officials can be expected to continue to demand higher prices for raw materials in order to advance their industrialization plans. U.S. imports of Bolivian tin and Chilean copper were interrupted during the past year pending agreements on price. Increased production of manganese in Brazil has been held up for some time because of various legal difficulties which presumably could be quickly settled by the Vargas administration.

Latin American countries have been cooperative in complying with U.S. requests to prohibit the shipment of strategic materials to the Soviet Orbit. Some strategic materials, however, [REDACTED]

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[REDACTED] have nevertheless been reportedly transshipped to Eastern Europe through third parties in Western Europe.

Of the eight Latin American countries approached during the past year regarding bilateral military agreements, Cuba, Ecuador, Colombia, Peru, and Chile have signed and ratified agreements, while Brazil and Uruguay have signed but not yet ratified. Mexico has deferred negotiations, possibly because of a confused pre-election situation. Talks with the Dominican Republic are now being held. These military agreements generally fit into the scheme of hemisphere defense drawn up by the Inter-American Defense Board.

Eventually, exaggerated nationalism may seriously affect U.S. security interests in Latin America. For the next several years, however, in a situation short of war, the present degree and scope of Latin American cooperation with the United States is likely to remain basically unchanged. In particular, Latin American strategic raw materials will continue to be available, but the governments concerned will exact a maximum price for them in dollars, goods in short supply, and other economic concessions.

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LATIN AMERICA**B. ARGENTINA ***

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Political and Economic Situation

The Peron government has been threatened for over a year by a critical economic situation and by conflict between Peron's two principal supporting groups, the army, which put him in power in 1943, and the increasingly influential General Confederation of Workers (CGT). In this situation, the death last July of Senora de Peron, who personally had a tremendous following among labor and the depressed masses, has left a power vacuum and increased army-labor jockeying for position.

Traditionally the army has been the arbiter of Argentine politics, but Peron has now curtailed its political capabilities by arming certain labor groups and by repeated purges since the September 1951 abortive revolt led by retired officers.

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On the labor side, the CGT is the most powerful political force in Argentina and dominates the Peronista Party organization. It contains a number of leaders with independent tendencies. There are also some Communists and Socialists in major CGT unions, and Peron has maintained advisory relations with a "dissident" group of Communists whose own relations with Moscow are uncertain. Even the official Communist Party has recently abandoned its former anti-Peron position. Although the Communist party is estimated at only 35,000 members, Communist influence in the labor movement is such that prolonged political and economic deterioration might permit the rapid growth of Communist strength and influence in Argentina.

In the immediate economic crisis, favorable livestock and crop forecasts for the year-end harvest promise some improvement. Two droughts in recent years have seriously damaged Argentina's balance-of-payments position, which depends mostly on exports of farm products, and even if this year's crops are good the value of exports in 1953 is likely to fall an estimated 15 percent short of paying for expected increased imports. In general, Peron's over-ambitious program of industrialization and nationalization of public services has increased underlying economic weaknesses and created large budgetary deficits.

Foreign Policy

Under Peron, Argentina's basic foreign policies have been the so-called "Third Position," of non-alignment with either the U.S. or the USSR in the East-West struggle, and the promotion of Argentine influence in Latin America in opposition to that of the U.S. Peron aggressively seeks,

* This section is based largely on NIE-66, "Probable Developments in Argentina" (7 pp., 13 June 1952). The analysis in this estimate remains valid in essential respects.

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by propaganda and diplomatic activity, to induce other Latin American states to adopt the "Third Position" also. Though nominally impartial, in practice his policy is predominantly anti-U.S. rather than anti-Soviet.

Argentina is a signatory to the Hemisphere defense treaty, but it has strongly criticized U.S. bilateral military pacts with other Latin American countries and recently declined to renew its agreement with the U.S. military mission. The Argentine armed forces number approximately 132,000 men, second only to Brazil's in Latin America, and the Navy would be capable of aiding in wartime patrol of the South Atlantic shipping lanes.

Although the intensity of Argentine anti-U.S. activity and propaganda might be moderated or increased, depending largely on the internal situation, it is unlikely that any presently foreseeable change of government would bring about a modification of the "Third Position" or an end to efforts to promote Argentine influence in Latin America.

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LATIN AMERICA

C. BRAZIL

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Brazil continues to have a strong pro-Western orientation. It maintains relations and engages in a minor amount of trade with certain Soviet Satellites, but has no relations with Moscow or Peiping. Although nationalism sometimes plays an important role in the formulation of Brazilian economic legislation, it has otherwise done little to impair Brazil's cooperation in the East-West struggle.

President Vargas has been sharply criticized by powerful figures in Brazilian politics

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In recent months he has been attempting to secure a broader base for his administration by sponsoring certain pro-labor measures and by offering high-level positions in the administration to members of the chief opposition party.

Prices for coffee, the chief Brazilian export, are currently high. Foreign exchange is short, nevertheless, owing principally to the heavy demand for imports caused by the rapid progress of industrialization.

During the past decade there has been a very great increase in manufacturing production, in the number of manufacturing establishments, and in the variety of products manufactured in Brazil. Until the '30's, farm production was more than one-third higher than industrial output whereas today the relative importance of the two in national productivity is reversed. An indication of Brazil's current development of heavy industry is the fact that iron and steel production in 1951 accounted for approximately 800,000 metric tons of finished products, about 270 percent more than in 1947. Since July 1951, the Joint Brazil-U.S. Economic Development Commission has been active in furthering industrial and commercial progress, and has been well received by Brazilian government officials as well as businessmen and industrialists.

The Brazilian Army numbers approximately 140,000, adequate for defense against attacks by any probable combination of neighbors and to assume a proportionate responsibility in joint hemisphere defense. American training methods are followed as closely as possible, but physical standards are low.

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LATIN AMERICA

D. CHILE

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The newly elected regime of President Carlos Ibanez may prove to have at least a temporary stabilizing influence in Chile, despite Ibanez' past dictatorial record.

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He does reportedly favor closer Latin American economic cooperation of the sort proposed by President Peron, and might turn in the direction of Peronist policies of greater nationalism and opposition to the U.S.

The new regime currently has the support of a wide cross-section of the populace because of the expectation that it will take effective measures to combat corruption, inflation and other economic ills. Ibanez plans to select his policy-making cabinet after the March elections for Congress in which his supporters hope to swell their now small representation.

Copper sales, which earn about half of Chile's foreign exchange, have added to dollar reserves, although the latter continue to fall short of Chile's needs for industrialization purposes. Some 20 percent of United States 1951 copper requirements, exclusive of stockpiling, were supplied by Chile. Although Chile has no significant direct trade with the Soviet Orbit, the Orbit has received some Chilean copper through transshipment.

Despite reports during the election campaign, it now appears unlikely that Ibanez will seek to nationalize the copper industry.

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LATIN AMERICA

E. COLOMBIA

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A state verging on civil war now prevails in Colombia. The Conservative administration, unable to stop the attacks of guerillas who are active in large areas, has permitted its partisans to exercise retaliatory violence upon the opposition Liberals, who are considered accomplices of the insurgents. As a result, Liberal leaders have gone into exile, and the Party's National Directorate has "recessed." Many Liberal partisans now see their only hope in open support of the guerillas. The weak Communist Party, which hitherto disavowed any connection with guerillas, has now reportedly recognized the guerilla movement as one of "national liberation" and may join it.

Partly because of the guerilla threat and because of growing doubt among high army officials as to the competence of the present regime, the military, encouraged by dissident Conservatives, is currently reported to be considering a move to assume political power.

Paradoxically, this politically weak nation is economically strong. Exports and imports are at high levels; retail trade is good; and a communications development program, financed by a recent \$25,000,000 International Bank loan, is under way.

The army is only 23,000 strong, and the 15,000 National Police force is rather ineffective. The Colombian Battalion in Korea has made an excellent record,

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LATIN AMERICA

F. VENEZUELA *

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Venezuela's basic orientation is unequivocally pro-Western. Despite growing nationalism, it has generally supported U.S. policies in the UN and Organization of American States.

Political tension is currently high, with the approach of the 30 November Constituent Assembly elections, the first democratic procedures in four years. The ruling three-man Junta, which derives its principal support from the armed forces,

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Venezuela, the world's second largest producer of petroleum and a potential major source of iron ore, continues in a sound financial position. Recent cut-backs in crude oil production, primarily due to the fact that the Iranian deficit has now been made up, have not seriously affected the economy and seem unlikely to do so unless production is forced below 1950 levels. There is no evidence that the Junta contemplates nationalization of the oil companies.

Venezuela entered into a bilateral military agreement with the U.S. in 1951. It is able and willing to pay cash for all equipment, is eager to build up its meager military capabilities for the defense of its own territory including the oil fields, but is reluctant to assume broader obligations.

* This section is based largely on NIE-67, "Probable Developments in Venezuela" (7 pp., 31 July 1952), which contains a more detailed analysis.

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LATIN AMERICA

G. GUATEMALA *

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Guatemala is currently the only Latin American country in which there is significant direct Communist participation in national politics. The Communists identified themselves with the democratic and nationalist goals of the popular revolution of 1944, and now influence virtually every organization supporting that movement, including the pro-administration political parties. They dominate the powerful labor confederation, on which the administration has become increasingly dependent. They hold positions within the government and seem to enjoy the confidence of high government officials.

Communist influence is evident in party-line attacks on the policies of the United States which regularly appear in the official press, in the "independent" position taken by Guatemala in the United Nations, and in the continual harassment of American business firms in Guatemala, especially the United Fruit Company.

Despite their great influence in the government, the Communists still lack popular support in Guatemala. The opposition to them, however, lacks united leadership and organization. President Arbenz, who is not a Communist, apparently feels it politically inexpedient to alienate his Communist support at this time. The three pro-administration political parties which, with the Communist Party's four representatives, hold 47 of the 58 seats in the unicameral National Congress, are now forming an electoral alliance with the Communists for the Congressional elections expected late this year. The opposition and anti-Communist groups are unlikely to succeed in increasing substantially their 11-man representation in Congress.

The Guatemalan Government, despite widespread corruption, is in sound financial condition and foreign exchange reserves are close to an all-time high. Agricultural labor supply will probably be at least temporarily reduced by last June's agrarian reform law, which provides for expropriation of unused lands and their transfer to landless peasants, most of whom are now working as laborers. The adverse effect on agricultural production would be particularly significant since agriculture accounts for about 57 percent of the gross national product and almost 95 percent of the value of exports.

The 6,000-man army, on which any government ultimately must depend if it is to remain long in power, has been assiduously wooed by the present administration and still appears loyal to President Arbenz. However, many high officers are becoming increasingly alarmed at the growth of Communist influence and

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* This section is based in part on NIE-62, "Present Political Situation in Guatemala and Possible Developments During 1952" (5 pp., 11 March 1952). The analysis in that estimate is valid in essential respects.

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